

# With Our Readers

Sirs:

Charles Benedict's article on Franklin D. Roosevelt in your issue of July 6 is such a true and masterful summing up of the man and his measures that I am impelled to highly commend the author for writing it and your Magazine for its courage in publishing it.

Many of us in the Middle West have felt that our press and most of our magazines have been far too lenient in handling matters pertaining to our Government especially the course being followed by the present Administration and we are highly pleased to see that at least one leading periodical has the courage to put before the public our true situation and the dangers which confront us as a nation. We are already far on the road toward a dictatorship, but your courage and recent happenings in Congress give us reason to hope that a halt is being called. Let the good work go on. We are with you.—D. W. L., Minneapolis, Minn.

Sirs:

I have just read with a very great deal of interest Charles Benedict's article, "What Manner of Man is Franklin D. Roosevelt?" Your description of him seems to be the general measure in which he is held at the present time.

One of my judicial friends years ago stated to me, "There is one court from which there is no appeal and that is the court of public opinion." Through the press and the comments of individuals the public records its conclusion. No man can successfully withstand it.

At the present time I am reading a book, "Ten Years of Plunder." As I have lived during the period mentioned and have had rather an intimate knowledge of what took place, I can appreciate the possibility of a sincere desire upon the part of the President when he came into power to correct some of the abuses which are so graphically described in the book to which I refer. Unfortunately, instead of bending his efforts to bring back prosperity and provide for the unemployed in that way, he seems to have taken the impossible course of trying to bring about impossible reforms at the present time and in an impractical way. All we can do is to hope for the best, and to give him a reminder from time to time of "public opinion."—V. G. R., Media, Pa.

Sirs:

May I take the liberty of asking Mr. Charles Benedict:

To whom is President Roosevelt a dangerous man? Is he dangerous to the twenty million people he has had to feed when the former administration absolutely refused to do this? Is he dangerous to honest business whom the N R A acted as a leader to pull out of the ditch? Is he dangerous to the little children whom he wants to take out of the factory? Is he dangerous to the poor women working in the sweat shops? Is he dangerous to all honest bankers whom he has tried in every way to serve and last, is he dangerous to labor, for whom he has tried to inaugurate fair practices and is he dangerous to even the utilities who have fought him with all of their power? He has asked only that they make legitimate profit.—L. K. A., Fort Smith, Ark.

Sirs:

The Securities and Exchange Commission has been of great service to the average investor, as it has given him an opportunity to take advantage of investment situations on unexpected news. A few weeks ago, I read in the morning paper of the unexpectedly good earnings of a corporation in which I have been interested for some time. Although I live many hundred miles from New York, I placed an order for a block of the stock before the market opened, and, contrary to the old scheme of things, the stock has steadily risen to higher levels. The close check kept on "insiders" by the S E C gave hundreds of investors an equal chance to buy this stock. In the old days, the stock in question likely would have risen to new high ground a week or two before the earnings were announced to the public, following which, profit taking by the "insiders" on the good news would have left John Public holding stock at prices that never again might be reached.—R. M., Davenport, Iowa.

Sirs:

As the owner of several blocks of stocks in corporations which produce consumer goods, I am disappointed in noting that but one of the managements has the foresight to regard me as a possible customer for its goods. Com-

panies operating in this field are constantly bringing out new products, often under the name of a subsidiary, and stockholders would be only too glad to buy the products, especially everyday essentials, of those companies in which they have an equity.

The stock of the company which keeps me closely informed of its products, by the way, acts much better marketwise than those other issues which I hold representing corporations in the same field. The management obviously must be exceedingly efficient in all of its activities. More companies should take advantage of the purchasing power of their stockholders.—B. P. G., Troy, N. Y.

Sirs:

Your discussion on investment possibilities in the principal industrial groups in your last issue is interesting to me. It emboldens me to make a suggestion for another article which might be even more helpful. Take a given sum and show how to invest it in two ways:

(A)—Where income and safety is the first consideration.

(B)—Where profit is more important than income.

—T. L. L., Chicago Ill.

Sirs:

Two things in your recent article entitled "Sharing the Wealth" (issue of July 6) should receive the widest publicity. The first is the trend of real wages, which, as you show graphically, has been almost steadily upward for 70 years. The second is the chart which shows that despite the effect of this depression on national income, labor's share is virtually unimpaired and is larger than the amount received by security holders in the form of bond interest or dividends, and larger than the withdrawals of management or proprietorship interests. In other words, the employed wage earner has really nothing to kick about. He is getting his share; in fact, in terms of what his wages purchase, he is getting more, year by year.

Most spread-the-wealth advocates fight shy of such facts. Their attitude is in accord with their avoidance of those simple arithmetical computations which reveal the nonsense in most of their theories.—C. O. M., Babylon, L. I.

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## WITH THE EDITORS



# The Big or the Little?

**P**OLITICS and politicians have made it very, very plain by now that they do not like wealth in general and big corporations in particular. The votes are on the other side and the theme song of the day seems to be not only "Soak the Rich" (to the tune of the Star Spangled Banner) but also "Swat the Big" (to the tune of "Memphis Blues").

Probably it is not going to be exactly illegal to be either rich or a big corporation, but we fear it is going to be increasingly uncomfortable and expensive. We hasten to add that we have no personal fears on either score, but we know some rich people—a few—and they are really not half bad! Also, if General Motors or American Telephone and the rest of the corporate Big Shots have their feet on our neck we can only confess that we do not feel the pressure. We note, of course, an occasional pain in said neck, but when we look to see what it is, it is not United States Steel or American Can

or Sears, Roebuck but—who would you guess? Right! The tax collector or some politician or other.

Just what to do about it all we do not profess to know. Very likely the rich and the big corporations can find ways to make out without our advice, good as we think it to be. But the sad thing is that you can't swat a big corporation without swatting a lot of small stockholders.

So what? Should the owner of 20 or 50 or 100 shares of General Motors sell out because the company has been guilty of building up assets of \$1,268,532,025? And if he sells out should he put his money in 500 shares of, let us imagine, Pink Wolf Silver, which must be safe from the politicians and tax collectors because it has small assets, if any. Besides, since this stock is so cheap, think how much of it you can buy for your money! And because the capitalization is small—only 100,000 shares—the company only has to earn \$1,000,000 to make \$10 per share.

Look at the dozens of stocks of small capitalization that have gone up 50 or 100 per cent this year or what have you.

All right, say we. Look at them. But while you are looking, take a glance at the much more numerous issues—also of small capitalization—that have not moved or that have gone down as fast as the minority went up. The mechanics of the thing work both ways. If Pink Wolf Silver loses \$1,000,000, as is not particularly hard to do, that also figures out \$10 per share.

There are many things we would want to know about a corporation—its working capital, trade position, quality of management, etc.—before we would waste any sleep over its size or the number of its outstanding shares. Other things being equal—which they almost never are in this trying world—it would be logical to favor for investment the medium size corporation of moderate share capitalization.

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### Mid-Year Dividend Forecast

Covering Leading Companies in Important Industries

#### Part I in the Issue of August 3, 1935

Railroads, Motors and Accessories, Liquor, Machinery and Electrical Equipment, Farm Implements, Office Equipment

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#### Part II in the Issue of August 17, 1935

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By A. T. Miller

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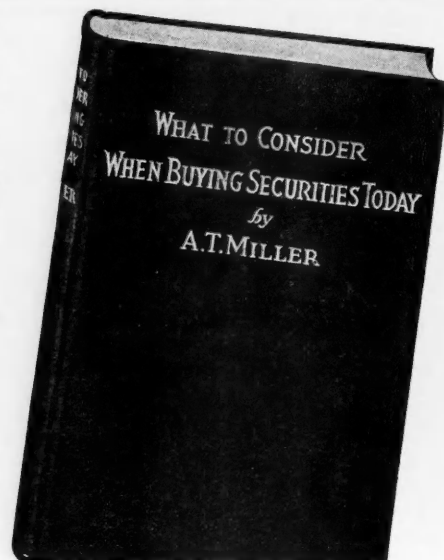
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## The Trend of Events

**DRIFTING** IT is unfortunate that public attention and the activities of Congress and the Administration are centered today on a variety of secondary issues. By far the most serious problem confronting this country continues to be just what it has been for more than two years—great unemployment and the manner in which we shall deal with it. The \$4,000,000,000 work program will not end unemployment. Neither will it prove the last word in relief. Yet the President continues to drift and hope for the best.

Obviously, the only cure for unemployment is business recovery—but the President can not bring himself to concentrate on recovery or to give industry encouragement. There are apparently too many lesser things that he thinks more important. Meanwhile we draw nearer to the time when a country weary of loose spending will listen to another budget message demanding more billions of dollars for relief.

As for the relief problem itself, it is going to be with us in some proportions for a long time. It is time we stop veering back and forth from one makeshift scheme to another and decide upon a rational policy. Facing a certain further strain on the national credit, it is time to ponder whether we can afford expensive work relief, whatever its moral advantage over economical cash relief, such as Britain employs. It is time to cut some red tape and put intelligent

flexibility into the system so that it will neither encourage idleness—as does the present method—nor make it unduly hard for the individual in distress to get relief, as the present method also does.

There are signs of a public reaction in the drastic halting of relief to employables in several western states in order to force them to accept employment on farms in the harvest season now at hand. There is even talk at Washington of a general “purge” of the relief rolls. The word has an unsavory smell. No doubt that is the proper treatment for incorrigible malingerers of able body. Certainly it could be properly applied to all relief roll aliens enjoying illegal residence in this country, but it does not fit the great bulk of those on relief. Many of these fear to take private employment because they well know the obstinate red tape they would have to plow through to get back on relief should need again arise. Moreover, we can not cut them loose from relief in great numbers without devising some safeguard against the pittance wages that would tend to become standard as a minority of greedy employers take advantage of a sudden surplus of workers.

A moment's thought should convince anyone that anything remotely resembling a “purge” is out of the question. A slow tapering off over a considerable period of time is the only possibility—making it all the more imperative that we both husband the national

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS  
1907—“Over Twenty-Seven Years of Service”—1935

credit to the limit of humane ingenuity and concentrate on recovery. This is the problem—bigger than the utility holding company issue, the banking bill, the social security bill and all the rest of the current political distractions.

It is high time the President woke up. He is flirting with disaster.

## RUBBING IT IN

THE Supreme Court held that the abrogation of the gold clause in Government obligations was repudiation, but that rectification was up to the conscience of the sovereign on proof of loss. The Government, however, experienced no pricking of its conscience. So it caused a bill to be introduced into Congress to close the Court of Claims to such litigation. The bill will probably pass and the record of repudiation be perfected. No matter how clear may be proof of loss in any case from the Government's promise to pay in gold, the injured person will have no redress. It was neither honorable nor expedient to take this course. There was no occasion to advertise the welching in principle and no reason to think that the Government would suffer from such suits. The proof of any substantial loss in any instance would be difficult if not impossible. In the second place the Court of Claims is merely a court of courtesy. Its findings are not binding on Congress, which has the right to invalidate them by refusing to appropriate the necessary money. In the event of heavy damages being awarded it could fall back on its initial repudiation and a callous conscience and plead the public necessity of a course of dishonor. With nations, as with individuals, one sin often seems to compel another.

## HOPE FOR THE FUTURE

A SURVEY by the National Industrial Conference Board reveals the striking fact that eighteen industries which did not exist in 1879 absorbed almost one-seventh of all labor employed in manufacturing operations in this country in 1929. Thus does progress in science, invention and technology tend ever to expand aggregate employment at the same time that it eases the toil of the individual. We customarily lose sight of that fact in every major depression.

Industries unborn fifty-six years ago include automobiles, aviation, electrical machinery, gasoline, rayon, manufactured ice, typewriters, mechanical refrigerators, cash registers, adding and computing machines, motion pictures, etc. Of course, fifty years is a long time in the life of the individual, but it is a short time in the life of a nation and but an hour in the life of human civilization. Our fathers and grandfathers well remember the days before most of these industries were born. Our children will take new marvels for granted and wonder why they were not thought of sooner.

Looking back, who dares be skeptical regarding the potentialities of any new industry? When the first gasoline buggy chugged and puffed along on its initial

trial run probably most of the spectators thought: "That durned thing will never get anywhere!" Now watch them whiz by. When Wright lifted the first frail airplane off the ground probably to most it seemed merely an interesting stunt. Next month the regular air schedule from New York to California will be sixteen hours! What next? We don't know—but neither did we know in 1879.

## STEEL RENEWS THE ADVANCE

ONE will not go far wrong in charting the course of industrial recovery in terms of steel. As steel production expands the depression retreats. It is an omen of hope, therefore, that steel operations are rising in this normally dull midsummer season. In a week the operating rate has advanced 4 points to 43 per cent of estimated capacity. A year ago it was 27 per cent and it did not start to recover until September. If the present upturn can be taken as the beginning of the autumn spurt, it starts six weeks earlier than last year and from a considerably higher base.

The recent improvement has been due to belated buying of rails, to unexpectedly heavy requirements of tin plate mills and to expanding demand in some miscellaneous lines, all on top of sustained orders from the automobile industry. It is easy to overlook the importance of what for convenience the industry lumps together as "miscellaneous" demand. This is a big country. Like tiny springs and brooks, converging by the thousands into the main channel, small orders make a mighty stream.

## PRICE CONTROL

CONTROL of the price of anything requires control both of supply and demand. That is something that ambitious price-fixers, political and otherwise, never seem to comprehend until it hits them in the face. Controlling the supply of most commodities is a problem of baffling complexity. Controlling the demand is a sheer impossibility as long as we maintain the human freedom under which Johnny Consumer goes quietly along cutting his cloth to fit his purse, oblivious of national plans and national planners.

Consumers are neither organized nor nationally vocal. They do not need to be. Their passive resistance to the price gouge is an impregnable defense and it makes no difference whether the reason for the boost lies in an artifice of our Washington planners, the greed of the seller or a whimsy of nature. There is just so much effective demand at any one time. Stretch it at one point and you contract it at another.

For a year retail prices of most finished goods have been sagging. Under high prices, sales of butter dropped 46 million pounds in the first five months of this year while sales of oleomargarine increased 77 million pounds. In our tangled skein of plans the consumer often seems to be the Forgotten Man. Don't kid yourself? He rules the roost.

Monday, July 29, 1935.

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS  
1907—"Over Twenty-Seven Years of Service"—1935

# Business Prospects and Earnings Reports Dominate the Near Term Trend

Now Is Favorable Time to Reappraise Holdings as Some Groups Overdiscount While Others Have Barely Started

By A. T. MILLER

THE stock market continues to show a strong inclination to sell ex-politics—in other words to move in a generally upward direction, showing less and less fear of

Washington developments and paying more and more attention to business. It remains, nevertheless, a discriminating market, sensitive to the trend of affairs in individual industries and especially to the profit showing and prospect of individual issues.

Speculation, of course, there is, but on the whole it can be said to be motivated mainly by what are primarily investment considerations. Of all factors, the trend of sales and net has long been the best and most profitable guide to successful speculation in this market. Under the prevailing regime of S E C regulation it has time and time again proved impossible to force the going. Impatient traders stepping in and buying in volume in the hope of "attracting a following" have been repeatedly disappointed. The fact is that there simply is very little active public speculation such as usually developed in the past on any market advance of such scope as that of recent months.

The present virtually record low ratio of brokers' loans to prevailing stock prices testifies to a basically firm technical foundation. Neither in present technical indications nor in the business picture is there any reason to fear a liquidating movement of serious proportions.

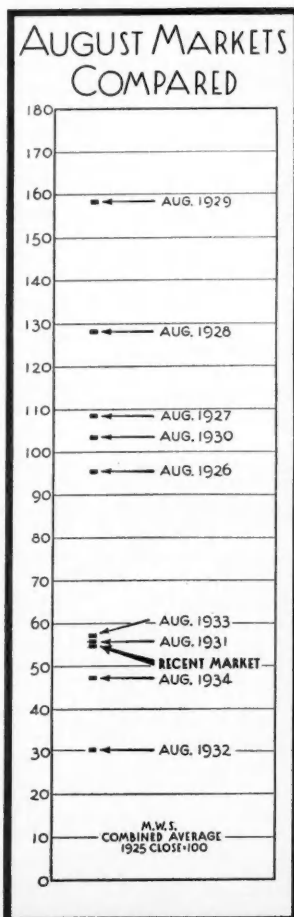
Yet it does not by any means follow that the sky is the limit or that the market will run on indefinitely without any more substantial technical reaction than has been experienced during the past two months. The present recovery phase has lasted more than four months, with only the brief N R A reaction of late May offering any material interruption. This presents something of a temporary technical problem, pending solution of which we think it

just as well to be on guard against over-optimism in short-swung speculative operations. Even in the unprecedented bull market of the late lamented New Era periods of inter-

mediate advance lasting much more than four months without correction were an exception to the general rule. On the other hand, as pointed out before, mid-summer is the season in which the market entertains hope of better things to come in the autumn, at least during years when the underlying business cycle is favorable. In such years—and the present year can so qualify—mid-summer has usually provided no serious market test, reactions proving short in duration and moderate in scope.

Between the above two conflicting lines of technical reasoning, we see no necessity to risk a guess as to the immediate outcome. Many stocks have experienced sufficiently wide advance to be faced with the potential threat of profit-taking at almost any time. Even a moderate speculation can from time to time run ahead of the investment base and over-appraise current values. Moreover, after protracted advance, there is always the risk of surprise. Finally, while the six months earnings statements now being issued are generally favorable, the few exceptions have met with instant unfavorable response in the market, as testified by the recent reactionary performances of United Fruit, Corn Products, Loew's, Inc., Cluett, Peabody, and a few others.

While we see no reason why the general run of investment commitments should be disturbed, the present time is certainly appropriate to re-examine stock holdings in the light of the earnings reports now available. So far as concerns new commitments, both investment and speculative, we are of the opinion that most of the attraction is



now out of the high-priced Blue Chip favorites and, for that matter, out of the majority of issues that have had broad advances. On this reasoning, we favor restricting purchases for the present to specialties or other individual situations where there is a firm foundation of earning power and a reasonable price ratio to it.

In this connection it is worth examining the performance of the bond market, in which gilt-edged obligations have been driven by almost frantic pressure of surplus funds to the highest prices in many years and to abnormally low yields. As a result, the relative attraction of second-grade bonds has steadily increased, as is logical in a period of cumulative business and financial recovery.

#### *Secondary Issues to the Fore*

While the analogy is by no means exact in the stock market, since future earnings may readily justify present prices of most of the highest grade stocks whose return is not fixed as in the case of bonds, nevertheless present factors would seem to make so-called secondary equities increasingly attractive, relative to the better known and more popular favorites. As with second-grade bonds, broadening business recovery is radically improving the earnings position of many issues which a year or two ago had little or nothing to recommend them.

This is shown conspicuously in the half-year earnings statements of various companies essentially dependent on capital goods, a field which experienced very little recovery in 1933 and a large part of which was still in the red in 1934. To mention but a few examples of striking changes for the better in earnings, there are Westinghouse Electric, Allis-Chalmers, General Electric and General Railway Signal. All have experienced a market recovery proportionate to the improved earnings position, along with many other equipments, including farm implements and machinery makers, but is worth noting that the two in the most speculative position in 1934—Allis-Chalmers and General Railway Signal—have more than doubled in market price this year. It is perhaps interesting to compare this appreciation of more than 100 per cent with the performance of some of the outstanding Blue Chips, the perennially popular du Pont, which from the low point of this year has advanced by approximately 23 per cent, for example.

On the whole, the chemicals appear, rightly, to be maintained at rather high prices in recognition of their enviable industrial and financial position and their undeniably bright long-term prospect for expansion. These naturally are considerations that will weigh more heavily with investment than with short-term speculation. So far as the current earnings picture governs the price movement, there would seem to be little in the half-year profit reports of the leading chemicals to warrant a dynamic speculation from present levels. Air Reduction, for example, bettered the first half of 1934 by 44 cents per share, Union Carbide by 17 cents per share and du Pont was lower by 12 cents per share.

Steel shares have made further progress over the past fortnight, the majority, indeed, reaching new highs for the year. With few exceptions this can not be related to the earnings prospect, for the speculative leaders—United States Steel and Bethlehem—will do well this year to make even modest profits. There

is always, however, a reasonably firm basis for speculation in steels when the operating rate of the industry is moving up, as is the case at present. Indeed, the most cheering development in the entire business picture is the sight of steel operations advancing to 43 per cent of capacity at this normally dull season, reflecting sustained motor and tin plate demand and some improvement in rail and miscellaneous orders. Yet the behavior of the leading steel stock offers striking proof of the increasing realism with which the market of today sets its valuations, in comparison with past periods of general and somewhat indiscriminating speculation. In the fast speculation of the summer of 1933 Steel common reached 67½ and in the dollar revaluation spurt of 1934 it climbed to 59⅞. With a basically better prospect now than in either 1933 or 1934, but still without earning power, the best it has done thus far is 41¾—further proof that earnings are the big idea in this market.

Most motors and accessories have extended previous highs by a moderate margin, paying more heed to excellent earnings and the continuing satisfactory year-to-year comparison of sales and production than to the deepening, but normal, seasonal decline in manufacturing activity.

Farm implement and mail order shares have come into sharply increased speculative favor, reflecting the sustained favorable level of farm purchasing power. The leading mail order concerns report almost phenomenally larger sales, and retail trade reports in general reflect considerable optimism, though the results so far as individual merchandising equities are concerned are decidedly irregular. Variety and apparel enterprises appear to be doing well, stable or moderately lower prices contributing to sustained volume. Penney, Best and Macy, among merchandising shares, have reached new highs. Grocery chains, especially those hampered by meat departments and high meat prices, continue to lag.

#### *Building Gains*

Further gains in residential construction, though it is still at a decidedly depressed level, continue to lend support to the building shares, with American Radiator, Johns-Manville, United States Gypsum and similar equities pushing ahead moderately. Like the equipments, various companies in this field have put the period of persistent deficits behind them.

The can makers, selling close to the best levels of recovery, have the benefit of further substantial gains in earning power over even the very satisfactory level of 1934, the improvement in volume more than compensating for the absence of any such specially advantageous inventory situation as existed at the start of last year.

The rail group has climbed up to a new high for the year, although somewhat laboriously. This would appear justified by the improved autumn business prospect and somewhat enlarged traffic in farm products. The technical significance of this performance remains to be demonstrated and must be subject to some question, both because the margin by which a new average high for the year has been made is a small one and because the present level is but little more than 1 point above the lowest level of 1934. It remains 18

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# The Threat of Credit Inflation in Recovery

## Part I

Will It Be Held Off by the Deflationary Effect of High Taxation?

By THEODORE M. KNAPPEN

**A**PPREHENSION that the United States will be subjected to a run of inflation caused by an inordinate expansion of the volume of the currency has about disappeared. It may revive if the continued unbalance of the Treasury should arouse fear that the time will come when the only way that the Government can pay its bills will be to manufacture formal money. But there is every evidence that the Administration is set against printing press inflation and little fear that the inflation of the currency resulting from the silver purchase policy will be important enough to constitute an effective expansion of the currency. It is still possible that the easy money and debt-deflation elements in Congress may yet force through monetary inflation for such purposes as that of the Frazier-Lemke bill to lend farmers freshly made money and even that soldier bonus legislation may yet be achieved in that way.

On the other hand, every revival of business is inevitably associated with an expansion of bank-made credit money. Business expansion creates this sort of money; in turn, this expansion of money stimulates business: more credit is needed, granted and made to order, and an inflation circle results. In the latter twenties we had such a circle, particularly related to the securities markets. At that time there was no expansion of formal money, even little resort to Federal Reserve Bank credit.

The inflation of that period was a result of the interaction of business activity and individual bank loans, resulting in a large volume and rapid turnover of bank checks. Concern is now felt in some quarters that after the long period of business restriction and lethargy of lending there will be great pressure for bank credit excesses as business revives.

### What Present Tax Rates Would Yield Under More Active Business

Receipts of U. S. Govt. Calculated on 1929  
Conditions

(With Some Departures)

Applying Present Taxation Rates

Tax	Estimate	Actual 1935
Income tax—		
Corporation.....	\$950,000,000	\$572,000,000
Personal.....	900,000,000	527,000,000
Liquor Taxes.....	600,000,000	411,000,000
Gift and Estate.....	320,000,000	212,000,000
Capital Stock.....	100,000,000	91,000,000
Excess Profits.....	15,000,000	7,000,000
Tobacco.....	500,000,000	459,000,000
Documents and Stamps.....	50,000,000	43,000,000
Manufacturers Excise.....	550,000,000	342,000,000
Miscellaneous Internal Revenue.....	170,000,000	109,000,000
Customs.....	500,000,000	343,000,000
Miscellaneous.....	250,000,000	180,000,000
Agricultural Processing.....	300,000,000	526,000,000
	<b>\$4,955,000,000</b>	<b>\$3,852,000,000</b>

One of the objects of the pending banking bill is to enlarge the influence or control of the Federal Reserve over bank credits, with a view to checking inflation as well as to discourage deflation.

Another means of curbing credit inflation is heavy taxation—heavy enough to check the too rapid expansion of business activity. Heavy federal taxation is inevitable, sooner or later. The present policy of the Administration, however, is to defer an attack on the enormous budget deficits from the side of taxation until business is well on the way to recovery. There is, however, a possibility that when the President's political strategy plan for a scheme of taxation aimed at soaking

the rich and the commercially and industrially great, comes out of the Ways and Means Committee, it may be far more of a revenue measure than he contemplated. In fact, Secretary of the Treasury Morgenthau told the Ways and Means Committee that the time had come to move in the direction of increasing national revenues with a view to reducing the national debt, "though it would, of course, be unwise to impose tax burdens which would retard recovery." Mr. Morgenthau had nothing to say about curbing expenditures, but expressed the opinion that they are now at the peak. Commenting on certain tentative schedules of taxation covering inheritance and gift taxes, surtaxes on personal incomes and a graduated tax on corporation incomes, he gave some figures which indicated that the maximum rate named in each category would yield on the basis of present conditions a maximum of about \$900,000,000 to the public revenues, while the minimum rates would yield only \$79,000,000. He declined absolutely to give the committee any suggestions as to balancing the budget through a considered program of enlarging revenues and reducing expenditures.

Other witnesses at the hearings took the ground that the proposed graduated tax on the income of corporations was a distinct threat to business recovery. Prof. O. G. Saxon, professor of business administration at Yale, for example, said that tax is "utterly unsound in principle, discriminating in its effect, and once adopted as a national policy would in all probability have extremely disastrous economic and social consequences from a drastic increase in graduated rates."

Of the President's proposals in general, Prof. Saxon warned of the danger of "a net reduction in Federal income through decreased business activity with accompanying increase in unemployment, decreased purchasing power to all groups and general instability." Other witnesses held that increase of taxation at this time, even if sound in principle, menaced the return of prosperity. Thus the effect of taxation, not only in respect of clouding a welcome prospect of inflation in a moderate degree, but even of promoting business deflation, was brought out. On the other hand, witnesses emphasized the view that reduction of expenditures would have an encouraging effect on business. There was consensus of opinion that increases of taxation should be deferred until business has had a breathing spell in an optimistic environment.

The hearings brought out in clear outline the well-known fact that the base of income taxation must be broadened in order to get large accretions of revenue. Without such broadening it is argued, increased rates of taxation of corporations and adding inheritance levies to estate taxes might produce relatively little revenue and a large amount of business depression.

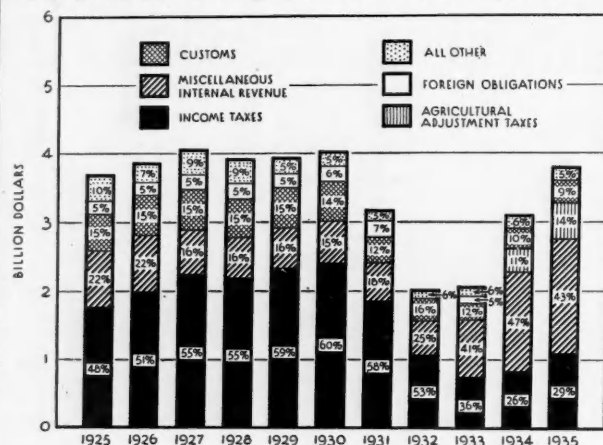
At present net incomes under \$5,000 constitute 63 per cent of the total taxable personal income of the nation, but they pay only 11 per cent of the total personal income taxes.

Incomes from \$5,000 to \$10,000 represent about 14 per cent of the total income and pay 9 per cent of the whole.

Incomes from \$10,000 to \$100,000 pay 44 per cent of the personal income revenues although they have only 22 per cent of the income.

Incomes of a million or over amount to less than three-

## SOURCES OF GOVERNMENT REVENUE



quarters of one per cent of the nation's total but pay 7 per cent of the tax yield—and yield the insignificant amount, relatively, of \$29,000,000.

The largest unit in the income revenue classes is the class of less than \$5,000, but the group that pays the most taxes is the \$50-100,000 class, which with 3.6 per cent of the income pays 15.2 per cent of the tax bill.

The tax program now under consideration is not expected to reach further down than the \$50,000 personal income and con-

sequently will not tap as much as \$2,000,000,000 of the present (1933 figures) \$11,000,000,000 of taxable income. It will have little effect in the direction of strengthening popular demand for reduction of expenditures, although it may derange the economic processes of the nation and thereby hit the little fellows below the belt.

When the bulk of the people who enjoy the bulk of the national income are not seriously affected by enormous national deficits the pressure for reduction of expenditures is not likely to be of much popular strength. The citizens who individually feel the burden of governmental extravagance and folly are the ones who cry for correction of ruinous fiscal policies. It is not too much to say, then, that the President's scheme of soaking the rich is not one to arouse public opinion against governmental wastefulness. There is little encouragement here for the checking of credit inflation through prudently increasing the burden of taxation. But the relatively small amounts obtained in the way of revenue from the classes and corporations singled out for heavier taxation may discourage business to such an extent that to conjecture the possibilities of heavy taxation as an agency for the checking of inflation would be ludicrous,

because business revival may be stopped in its tracks, and the problem again become what it has been for several years, that is: how to discourage deflation.

This may not be the time, as the business men who appeared before the ways and means committee agreed, to impose heavier taxes; but it is the time when Congress should be studying the scientific revision of the whole system or lack of system of Federal taxation, with a view to

## Balancing the Federal Budget

Year	Receipts	Expenditures	Deficit (—) or Surplus (+)
1935	\$3,852,000,000	\$7,376,900,000	—\$3,524,900,000
1936	*4,300,000,000	8,520,000,000	— 4,226,900,000
1937—(a) Assuming Recovery Tax rates same	4,955,000,000	6,520,000,000*	— 1,565,000,000
1937—(b) Assuming \$500,000,000 addition to Income, Estate and Inheritance Taxes....	5,455,900,000	6,520,000,000*	— 1,065,000,000
1937—(c) Assuming adoption British Tax System except gasoline.....	7,455,000,000	6,520,000,000*	+ 935,000,000
1937—(d) Assuming in addition to (b) 50 per cent increase of present Income Taxes.....	5,995,000,000	6,520,000,000*	— 525,000,000
1938—Assuming that 1938 recovery and relief costs would fall to \$1,000,000,000, revenues remaining same as in 1937, (a) would be a deficit of \$565,000,000, (b) would be a deficit of only \$65,000,000; (c) would be a surplus of \$1,935,000,000, and (d) would turn into a surplus of \$475,000,000.			

\*—Merely a guess that 1936 will be about 10% better than 1935. \*—Assuming 50 per cent cut in relief and recovery.

drafting a plan which would yield the necessary revenues with a minimum of disturbing incidence on the national economy. A system of taxation which would make all citizens sensitive to the fiscal effects of costly social reforms without regard to cost or economic welfare would work against national fiscal policies which threaten deflation on the one hand and invite inflation on the other. While business revival makes for inflation of credit, simultaneous paying the piper would tend to check dangerous business ventures. Last year's income taxes are always paid this year. The man with a big 1935 income tax to pay in 1936 will have an eye to business caution in the latter year. But continued disproportionate taxation leads to continued budgetary deficits, and they always head for monetary inflation. Extremely oppressive taxation of the masses, on the other hand, invites the monetary product of the printing press.

To step on the pedal or push a button and see the money come falling out is more alluring than digging to the bottom of a frayed pocket for crumpled tax money. There can be no doubt that if the taxpayers in the low brackets were today called upon to pay income taxes in proportion to their aggregate share of the annual national pie a wave of monetary inflation would overwhelm Congress and the White House tomorrow.

Our stolid British friends, however, got away with heavy taxation, slashed spending, and balanced budgets in the middle of their depression without so much as a milk riot. Perhaps that is why they are climbing out faster than we are. The normal income tax rate in Great Britain is 22.5 per cent compared with our 4 per cent, but the first 175 pounds of taxable net income pays only half this rate. Above that point everybody pays 22.5 per cent, but surtaxes do not start until the 2,000-pound (about \$10,000) level is passed. Beyond that point surtaxes step up from 5.5 per cent to 41.25 per cent on income in excess of \$250,000. In Britain a married man (no dependents) with a net income of \$2,500 pays \$183 tax; here nothing. Here are some further comparisons:

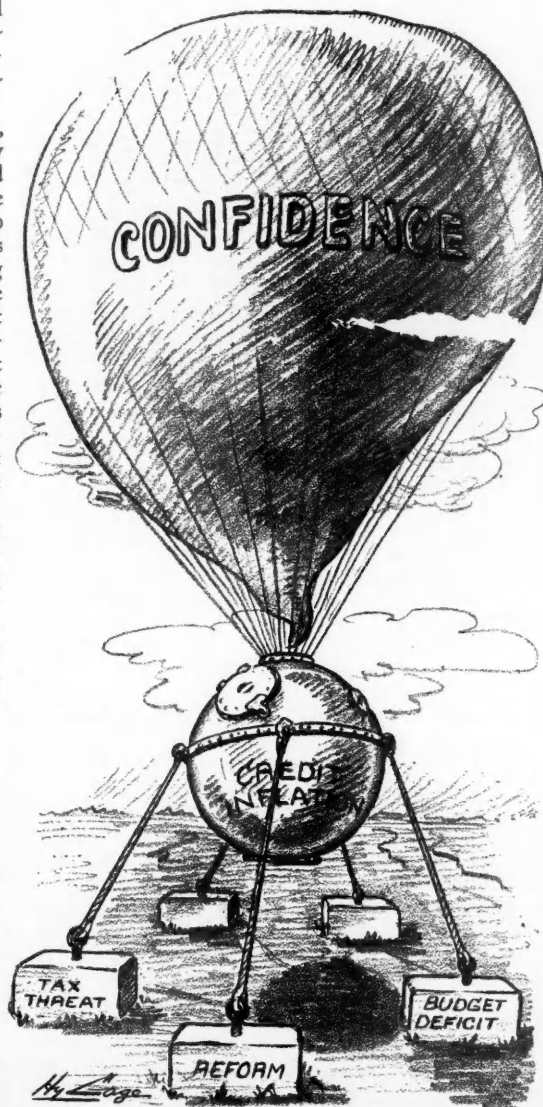
Net Income	Tax U. S.	Tax Grt. Brit.
\$1,500 .....	\$0	\$50.63
2,000 .....	0	95.63
3,000 .....	8	272.81
4,000 .....	44	452.81
5,000 .....	80	632.81
10,000 .....	415	1,645.31
100,000 .....	571,000	613,554.64

Taxes like these (they were about 10 per cent higher from 1918 to 1934) would probably start a universal tax strike in America, but they made the Briton swear to exterminate high taxes at the source, viz., high expenditures. He cut down the tax bill as he dug up

to pay it. The result was long years of grinding deprivation and restriction of business, but when the world quake in economy came along, the Briton was not on the pinnacle of an unstable boom. He escaped an excess of credit inflation and likewise an excess of subsequent deflation.

In respect of curtailment of expenditures the Administration has no plan. The last budget forecast that the fiscal year 1936 would see a greater outgo than that of 1935; but as the showing for the latter turned out to be much better in income and outgo than had been expected, there is now confidential talk that recovery and relief expenditures will be a billion, perhaps two billion less in 1937, than they were in 1935. Even without reductions in outgo we could balance the budget if we had the intestinal courage of John Bull—and pile up a surplus for debt reduction. We probably will not tolerate the torture of economy through heavy taxation. The chances are that we shall slip into good times without feeling the wages of the sin of national extravagance. With no sting of punitive Federal taxation in our memories we shall probably be keen for another personal spending and gambling debauch, once we are again running downhill on the road to recovery.

The Federal taxes we pay are largely indirect, income taxes being now the least of our troubles. If the excise and miscellaneous internal revenue levies were trimmed to their old size (and spread over the spared millions) and the personal income taxes restored to their former proportions, there would be less madness in Washington of the intellectual sort and more emotional madness (over profligate governmental expenditure) in the hinterlands at Washington. If we taxpayers came across, instead of rebelling, as our British cousins have done we might take our suppressed anger out on a fiscal scheme that relates expenditures to borrowing capacity instead of to revenue. As it is, we shall probably pay lightly in taxes, let the mad public borrowing go on heaping up deposits in the banks with no way to get out and filling the bank portfolios with government bonds instead of business paper. The end may be a humming credit boom—or another deflation. Consider what would be the estate of the banks, with a lending capacity of \$80,000,000,000 if a roaring boom should burn out the glass eyes of bank officers. We are set—thanks to fiscal recklessness in Washington—for a mad rush forward or a fearful fall backward. With a good chance, too, that we shall have the searing boom first, and then a kickback. Hard economy now and bitter taxes later may save us from both.



# Happening in Washington

By E. K. T.

**Business situation** is viewed here with applause. Growing steel output, retail trade expansion, climbing farm income, rising agricultural exports, increasing building, continuation of corporation refinancing, swelling government revenues, strong but calm stock markets are taken as indications that recovery is proceeding with increasing volume and velocity. No important setback is foreseen.

**President** shares the popular opinion that the country needs relief from Congress. He apparently never dreamed that his thirteenth hour taxation move would postpone the departure of Congress. So, now he continually presses for haste in disposition of the "must" measures. His idea is that the next session of Congress shall have only routine measures to deal with, so far as the Administration is concerned. Achieved legislation will be disturbing enough, but from now on it will not be added to.

**Political strategy** is to avoid controversy in Congress between adjournment of this session and November, 1936. Business is to be given a breathing spell in which to rediscover that nothing is ever as bad as it might be, being mellowed from month to month as prosperity returns; while the elements of radicalism and unrest are to be reminded of the imposing roll of reform laws that have been enacted. The President will naturally be less vocal with Congress out of sight.

**Democratic leaders** wish he would stop talking. Radio talks have been rare of late, but the leaders are afraid of a "break" at every press conference. These conferences are becoming a liability. It is an open secret that the White House correspondents are no longer so admiring of the President as they were, or so impressed by his remarks.

**If the Supreme Court** would only be kind, the Administration might count on placid waters for a long time to come. But late in the fall or in the early winter the high court will have to hand down decisions, notably in the A A A and T V A matters. N R A will be left in its lonely grave if business continues to improve and the general record shows that labor has not materially suffered from its burial. Second thought at the White House is that its disappearance is likely to prove a political blessing. Business has lost a whipping horse, it is felt. Some 25 million "coders" are left without their daily kick.



Wide World Photo

SENATOR WILLIAM E. BORAH  
Foe of Congressional Adjournment

**A A A is now considered** the one big bet of the New Deal. The farmers are for it, and Congress is strengthening its grip on the whole agricultural economy. If the Supreme Court upsets it, amendment of the Constitution is certain to be the big issue in 1936. President hopes that it will be possible clearly to prove next year that national economic planning has found the solution of the ancient problem of agriculture—that of prices which are not commensurate with industrial prices.

**When Ways and Means Committee** reports the soak-the-rich bill next week, it will be less of a soak and also less of a revenue measure than was expected. Inheritances will be assessed less heavily than was the original intention, there may be a deeper digging into personal incomes; but it is not impossible that a profits tax will be substituted for the President's plan of a graduated income tax on corporation incomes. Congress on the whole is fearful of a tax measure that might check business revival.

**Nothing is more dismaying to thoughtful statesmen than the possibility** that next winter may call for another \$4,000,000,000 relief measure. Only business recovery can prevent some such problem. Nobody in Washington or in the country in general seems to want heavier Federal taxes all along the line until prosperity has been attained. "We'll get currency inflation before we can pass another \$8,000,000,000 budget."

**Inflation is faintly back** in the picture again, with Senator Borah threatening to keep Congress in session while the bonus and the Frazier-Lemke paper money proposals make a final and protracted fight. It probably will not materialize. Inflation of credit as business becomes more active is far more likely than inflation of the currency.

**Opposition to the taxation bill** is handicapped by the disclosures of the utilities lobby investigation. That is one reason for their existence. Protests against the soaking-the-rich taxes have become suspect because of the faking methods of one utility worker in signing a telephone directory to telegrams opposing the death sentence provision of the bill as it passed the Senate.

Moreover, that piece of tricky stupidity may result in a compromise that will make holding company death more certain. But if Braintruster Cohen persists he may neutralize the telephone book.

THE MAGAZINE OF WALL STREET

**Congress** is unanimously disgusted with the prolongation of the session. A secret poll would show that an overwhelming majority of both houses is in favor of quitting right now, leaving all the must legislation to musty files. Some members are beginning to straggle homewards for keeps. By the middle of August it may be hard to muster a quorum in the Senate. But when it came to a vote in the House the same members who enthusiastically cheered the principle of adjournment slammed down the act. Members are afraid of that \$4,000,000,000 patronage fund, afraid of the inexorable party leaders, afraid of the President.

*Yet, like a revolution which smoulders long underground and then sweeps everything before it, the mere human misery of staying in steaming Washington to vote as they are told on measures that they don't understand (or if they do, dislike) may break out with a crash.*

**Senator La Follette** is about the only member of Congress who would like to see heavy income taxes. He has looked up English taxation laws and has discovered that if our internal revenue taxation were drafted according to British rates, we could increase the Federal income by more than \$4,000,000,000. The La Follette idea is that to keep and regain prosperity the Government must keep on spending at a magnificent rate. "Get the money so it can be spent" is his idea.

**Guffey Coal Bill**, which is unworkable, will pass, nothing doing for the Textile Control Bill, nor for 30-hour Bill. Proposal to repeal silver trading tax and give silver a free market may cause some legislative snarls, but probably will not get far.

**Rex Tugwell** is hard at work on agricultural resettlement. This is a sound plan and raises no constitutional question. It is an inspiring phase of braintrustship. General idea is to take unproductive and abused land out of cultivation—moving inhabitants to good land.

**As expected** rural electrification is being made an instrumentality of public ownership. Publicly owned light and power plants are getting the preference in assistance from the work-relief administration.

**Gold-clause damage suits** against the Government will be forbidden. The Supreme Court may have its ethics, but governments must be realistic.

**Motor truck** regulation bill will pass with the prospect of ultimate railroad relief.

**Suspicion is growing** that delay in opening the flood gates of the \$4,000,000,000 work-relief program is partly due to desire to have the flood of money at the crest in the fall of 1936.

*In the meantime the continuing betterment of business makes it unnecessary to proceed with haste for the sake of business stimulation. Besides, the C W A type of expenditure does not generate much fundamental business improvement, but can be used to create a short-lived splash.*

**Canada trade agreement** is confronted by embarrassment from British imperial preferences. United States is making the point that whereas all the British countries, in common with others, will automatically get the benefits in our markets that may be accorded to Canada, we get nothing there to compensate for the advantages competitive exports from Canada to them derive from imperial preference. Some industries are contending that if the immense American market is opened to Canadian goods and incidentally to the rest of the Empire the United States must have a means of sharing in the imperial preferences—if they are to be maintained.

*Pending negotiations, Canada is getting all the benefits of other trade agreements, until October 1. Agreement should be announced by then, but situation is complicated by the certainty that the present government of Canada will be turned out in the fall. Liberal government in the Dominion might be easier to trade with than the Bennett government is.*

**Control** of agricultural production will go on, regardless of the fate of the much belabored processing taxes. If the courts throw them out the general funds of the Treasury will be tapped. Or, perhaps, the gold profit will be thus applied, and also the silver seigniorage.

Pressure continues strong from the granger states for more tampering with the dollar to help pork, cotton, wheat, etc. Want gold content lowered or inflation to the dilution point. Administration might listen if A A A control should be blown up. Inflation possibility has a kickback on the tax bill. If an excess profits schedule were adopted, the higher prices went and the cheaper the dollar became the more dollars the Treasury would get.

**State Department** opinion is that if Italy strikes at Abyssinia, war will be brought nearer in Europe. Congress may pass a bill to keep us out of war by keeping us out of foreign trade and finance. President would like to see such a law.

**Highbrows in Government** have a new name for the political bums whom they

are compelled to employ; it is "facilitating personnel." The larger the "facilitating personnel" a social reformer has in his department the better his uplift schemes stand with Congress. One earnest New Dealer who is not lacking in political wisdom, turns the whole of his

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## Washington Sees—

*Recovery as resistless as the tides.*

*Ban on New Deal agitation when Congress departs.*

*President to get his taxes—but less.*

*Also, to get the gist of all he wants, before Congress quits.*

*A A A to persist indefinitely, even if paid for out of the general funds.*

*Canada trade agreement mussing up British Empire preferences.*

*Also, to roil American business to the depths.*

*Almost anything may happen in Congress, heat-weary, boss-tired, and threatened with recrudescence of inflation mania.*

*President more of a "case" and less of a marvel to newspapermen.*

*Professors learning about "facilitating personnel."*

*Guffey coal bill to pass—and flop.*

*Rural electrification to promote public ownership of power and light.*

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¶ Are Stocks Too High?—Too Low?

¶ What Is a Fair Relationship Between Price and Earnings, Dividend, Working Capital

# Gauging Security Values

By FREDERICK K. DODGE

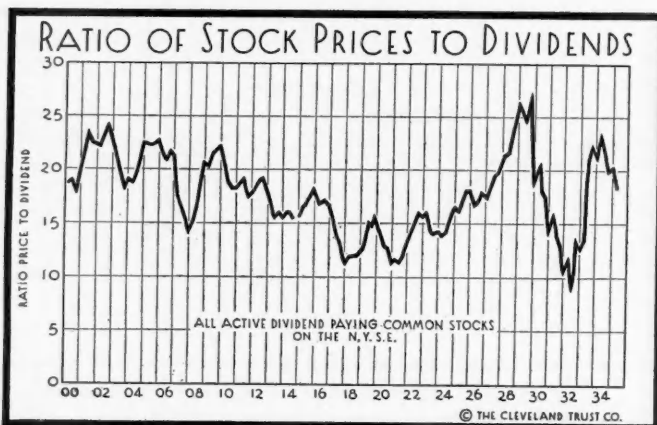
WITH many of the stock market's "Blue Chips" yielding less than gilt-edged bonds, there has been increased voicing of the belief that "stocks are high". Presumably such opinion implies that stocks are discounting their earning power far in advance of its realization. While it is true that many common stocks seem high when appraised by the standards with which we were formerly familiar, there are valid reasons for questioning the reliability of such standards in the present circumstances. With the extravagant theories of the late "New Era" conception of common stock appraisal pretty thoroughly disproved during the past five years and with such unpredictable factors as New Deal legislation, punitive reform and possible inflation injected into the current prospect, caution on the part of the investor is readily understandable.

Granting the presence of these uncertainties, the fact remains that the market since early this year has reflected unwavering conviction that the forces of recovery have been set in motion. In other words, the broad trend has been upward, and for the investor to ignore the implications of this condition may prove costly.

In the circumstances, it does not suffice merely to conclude that a particular stock is high, solely because its present price capitalizes recent earnings at fifteen to twenty-five times. It is only when the familiar and handy ratio of price times earnings is made subject to other salient factors of contributing importance, that it attains any value as a yardstick.

## Looking to the Future

The value of any common stock depends upon what it can earn in the future—not what it earned last year, the past five years, or what it is currently earning. It is this principle which produces the cardinal defect of instability in common stocks and it is the welter of approximation and estimation of the future that provides the speculative impetus to common stock fluctuations.



The past record of a particular company supplies valuable information as to its ability to weather changing conditions, of the ability of its management and the scope of its growth, all of which support its future prospects. The experience, reputation, and trade position of a company which has made its past record possible will undoubtedly stand it in good stead in the future, even though some strong companies may

falter and weak ones become stronger. These factors are recognized in the value of common stocks, for it is these factors upon which the assurance of future earning power is founded, and the shares of the majority of well established and successful companies will in the long run provide the soundest investment mediums. That is why many so-called "Blue Chip" issues continue to command generous market premiums.

But if the investor guides himself solely by a simple and arbitrary rule of thumb, such as, for example, the one which places a maximum valuation of fifteen times earnings on a stock, sooner or later he will find that he has deprived himself of some of the most profitable investment opportunities. It is, of course, of prime importance that any investment be made on a rational price basis, but a rational price basis is determined by a quantity of factors and not a single arbitrary ratio. Stated otherwise, the value of a common stock must be supported by an appraisal of the past record and an estimation of future opportunities.

## The Public Judgment

It is doubtless well known that investment is not an exact science and no one can presume to work out a formula for determining common stock values, which would lend itself to rigid application. All industries and companies, in addition to being subject to broad economic changes must cope with constantly shifting conditions more closely related to their particular field. These factors in themselves are sufficient to invalidate any convenient and arbitrary formula of appraisal, but, further, in the final

analysis the quoted value of a common stock at any particular time is no more than the sum of public judgment—wrong or right. Perhaps more than any other single factor, the one of public psychology is responsible in shaping the short term market appraisal of common stocks. It has not been an uncommon occurrence for the market to appraise a stock at twenty-five times estimated earnings, only at a later date to appraise the same stock at ten times actual net, with no apparent change in its prospects. Obviously this nebulous factor might easily nullify conclusions previously founded upon an arbitrary formula.

Recognizing that the functions of the conventional bases for common stock analysis are limited and without sustained relationship to short term values, the investor, nevertheless, can employ them to advantage. They are the tools at hand which, when used with common sense and a realistic viewpoint, may be made to serve the ends of conservative investment—if not speculation.

### "Price Times Earnings" Ratio

Undoubtedly the method most frequently used in attempting to arrive at a rational price basis for common stocks is the "price times earnings" ratio. This is perhaps the simplest method of quick appraisal—in fact its very simplicity frequently leads to its misuse. Obviously the results and conclusions of the "price times earnings" ratio could vary widely for the same common stocks, depending upon the manner in which it is applied. Suppose, for example, that it is noted that a selected common stock is currently quoted at twenty-five times earnings. What earnings—last year's, a five-, seven- or ten-year average, or estimated current earnings?

It has already been emphasized that the value of a common stock depends upon what it can earn in the future. To say that a stock is quoted at twenty-five times last year's earnings is excessively appraised, is a superficial and outdated conclusion. Later results may conceivably show it to have been selling only twelve times current earnings. On August 4, a year ago, American Can was quoted at 94, or about twenty times 1933 earnings. In 1934, however, the company earned \$6.72 a share. At 94, therefore, the shares were selling at only 13 times actual 1934 earnings. The company earned around 7 per cent on its shares at 94, and paid total dividends of \$5, a return of better than 5 per cent. Many similar instances could be cited.

In the present circumstances, the foregoing is a particularly important point. Unlike 1929, which had been preceded by an extended period of rising industrial prosperity, business is now striving to

emerge from a depression of unprecedented severity. Convinced that ultimate recovery is inevitable and rising earnings the rule rather than the exception, public opinion, as reflected in the stock market may not be as hasty in its judgment as prevailing quotations might lead one to believe.

In applying the "price times earnings ratio" it is particularly important that careful consideration be given to the industry with which the company is associated. Inasmuch as this ratio is simply another means of indicating the percentage of earnings on the quoted value of a common stock, the investor should seek a higher current earnings return from the static or more speculative industries to compensate for the absence of unusual possibilities for growth, or the presence of risks greater than normal inherent to certain industries. Conversely, he is warranted in accepting a lower current earnings return from industries which appear to have exceptional possibilities for recovery and growth.

Among mining stocks, for example, the investor would seem well advised to avoid those issues which capitalize earnings at 4 or 5 per cent—or, in other words, issues which sell from twenty to twenty-five times earnings. Not only is mining fundamentally a speculative industrial venture, but dividends paid represent in part, at least, a return of invested capital, if ore depletion is not offset by new discoveries. In view of these factors it is common experience to see mining shares selling on a much more conservative ratio of earnings to price than is true of industrial shares in companies of comparable merit. Today, for example the gold stocks of the best grade are selling at from 10 to 12 times earnings while the shares of various manufacturing enterprises command prices from 15 to 30 times indicated earnings.

### What Are Oils Worth?

The oil industry, while partaking many of the aspects of mining is favored by a sustained demand for refined products, as well as the growing probability that present

oil reserves will become increasingly valuable in the future. Thus, while the industry has had a rather chaotic career, and may in the future again be plagued by overproduction, the broader prospects are more favorable and more clearly defined than are those of the average gold, silver and copper mining enterprise. Consequently a price ratio of from 12 to 16 times earnings, equivalent to 6 to 8 per cent of annual earnings on the market price of the stock, is not regarded as excessive.

Those industries whose earnings are  
(Please turn to page 419)

### How Ratios Vary Among Typical Companies

Company	Price: 1934 Earnings No. of Times	Price: Dividend No. of Times	Current Assets to Current Liab. No. of Times	Working Capital Per Share
Chrysler.....	23.7	41.6	2.3	\$11.50
General Motors.....	18.0	36.0	4.0	6.25
Borg Warner.....	14.3	29.9	4.3	12.91
Briggs Mfg.....	13.6	18.0	3.1	12.90
Johns Manville.....	180.1	216.0	8.6	14.40
Pittsburgh Plate Glass.....	26.0	24.1	7.1	14.57
American Can.....	20.8	28.0	3.6	17.24
Continental Can.....	21.3	35.1	8.0	13.92
Owens-Illinois Glass.....	18.9	25.5	7.1	18.83
Air Reduction.....	29.7	36.5	8.3	18.95
du Pont.....	27.5	40.4	6.5	9.53
Monsanto Chemical.....	24.8	74.0	4.7	9.95
Union Carbide.....	28.4	40.0	6.2	7.00
General Electric.....	45.0	45.0	10.2	5.54
Westinghouse Electric.....	def	....	13.1	28.53
Caterpillar Tractor.....	25.7	33.3	12.7	10.47
International Harvester.....	def	76.6	10.1	47.81
National Steel.....	19.2	36.0	5.5	16.19
Inland Steel.....	24.5	38.0	6.8	16.33
U. S. Steel.....	def	....	7.5	41.85
Continental Oil.....	19.4	53.3	5.2	6.42
Phillips Petroleum.....	14.5	20.0	3.9	5.20
Consolidated Gas (Balti.).....	20.0	22.9	2.2	6.00
Pub. Serv. Corp. of N. J.....	12.3	15.0	3.8	8.62
Pennsylvania R. R.....	17.4	25.0	1.5	2.35
Union Pacific.....	16.0	17.6	4.1	26.63

# Significant Foreign Events

By GEORGE BERKALEW

Foreign Representative of THE MAGAZINE OF WALL STREET

## *American Banks Cancel Italian Credits*

The decision of the Italian authorities to liquidate the "Istituto Italiano di Credito Marittimo" came as no surprise. While there is no reason to view the Italian banking situation with alarming pessimism, the same cannot be said of financial conditions in general, or the exchange situation in particular. The lira continues to be controlled by Paris, but the pegging support from this quarter is gradually being withdrawn, which has engendered an 8 per cent discount against the franc.

Furthermore, the Duce has not succeeded in arresting the flight of capital and the more or less recent existence of a "Black Bourse" establishing exchange rates at between 15 and 16 per cent above official rates is not without significance. As an indicator of public confidence, conservative banking circles question the prudence of attempting to aggravate inevitable financial difficulties by spending depleted Italian resources for the support of the lira.

It is reported on reliable authority that some American banks, as a precautionary measure, have decided to cut their Italian acceptance credits, this constituting an additional adverse factor against the lira.

That matters are rapidly moving to some kind of crisis is seen in the temporary suspension on the part of the Italian Government of the requirement that the gold coverage for the note issue be 40 per cent. Officially, of course, Italy refuses to admit the slightest intention of devaluing the lira and for years, like France, has been smothering her people under the harshest of deflationary edicts with a view to saving her currency. Yet, what she is doing now has many of the practical aspects of devaluation. When a country devalues, it announces that henceforth gold will be worth so much more in terms of paper, thereby creating an apparent "surplus" of gold in the Treasury. This "surplus," or the so-called gold profit, may be spent in any way the government sees fit. Italy, however, evidently intends to go at the matter directly by arranging that from now on there need be less gold back of the currency. And because she will need less to back her currency, she will have a "surplus" which probably will come in "right handy" in the civilization of Ethiopia.

Thus, in some ways, devaluation and a reduction in the gold coverage have similar effects. It might have been better, however, had Italy done a straightforward devaluation job as Belgium did. Had this been done, it is believed that it would have put a stop to the flight of capital, resulted in a re-patriation of funds and stimulated depressed export business—all in addition to providing gold to finance imperialistic ambitions.



## *Will Dutch Economy Prevent Devaluation?*

Nor is the lira the only European currency in none too happy an estate. Ultimate devaluation of the guilder appears just as inevitable as ultimate devaluation of the lira—and it may well come sooner. Fundamentally, Dutch troubles are the same as those that have beset all the countries which sought a solution in devaluation, and the same as those currently bedeviling France—to suffer further deflation and maintain the gold value of the currency, or let the currency go and be relieved of the deflationary millstone.

Choosing the first of the two alternatives, the Dutch Government introduced a drastic economy bill, but this immediately ran into the most terrific opposition. The cabinet, under Premier Colijn, is reported to have resigned, although Queen Wilhelmina persuaded them to carry on for a time.

In the meantime, the live threat of guilder devaluation is having a depressing effect upon the price of rubber and other commodities. When the guilder goes the way of the belga still further pressure on prices is a logical expectation. American rubber companies seem to have so much trouble making money any way, that it is open to question whether the advantage of being able to buy raw material cheaper will offset the disadvantage of having to take inventory losses on the material already bought.

\* \* \*

## *Competition from Abroad*

While still on the subject of devaluation, this, coupled with the trade agreement, in the case of Belgium, has certainly had important effects. Belgium cement and steel exports to the United States have increased by leaps and bounds. American cement prices already have shown signs of weakness along the seaboard. The Public Works Administration order that, if the amount be more than \$10,000 and 15 per cent can be saved, then the material should be bought abroad is being protested vigorously by steel executives in the United States. This, however, is only one side of the question, what of the stimulation of American exports to Belgium?

\* \* \*

## *The Japanese Oil Squeeze*

As a topic of timely interest coincident with American and Japanese naval maneuvers in the Pacific is the question of the Japanese oil supply. The fact that Japan's domestic production comprises approximately 8½ per cent of her consumption requirements of three million tons, clearly

THE MAGAZINE OF WALL STREET

explains the Government's actual pre-occupation with this problem which presents a grave situation in a country whose imperialistic policy has become so active. In the attempt to offset this deficiency in national economy, the erection of refineries on Japanese soil has been vigorously encouraged.

The domestically-operated companies import in the neighborhood of a million tons of crude oil annually, for the most part from the United States, and allocate the remainder of consumption requirements to the Standard Oil Co., the Texas Corp., and the Royal Dutch. But with the yearly increase in Japanese refining capacity, it is only a question of time before these foreign enterprises will be squeezed out of the refining field. The rapid extension of soya bean oil production, together with the application of German methods of recuperating oil by hydrogenizing coal and lignite, present further potential competition to British and American enterprises.

Already the monopoly operative in Manchukuo, has practically struck a death blow to the Standard and Texas business in this area and is likely to be of more far reaching consequence when the new Manchukuo wells become operative during the course of the next two or three years. Hence, the American companies which supply 60 per cent of Japan's petroleum products are facing a tenacious opposition in Oriental markets and are suffering, under the dominance imposed by the Japanese, from restrictive measures of control governing questions of stocks, prices and distribution.

Meanwhile, although it is estimated that the stocks of fuel oil held by the Japanese Navy are appreciable, according to expert authority, it is believed that during the first year of war Japan will have available only two-thirds of her peace time oil requirements.

\* \* \*

### England—Eat, Drink and Be Merry

The apology of Mr. Baldwin on British policy has been received with only lukewarm enthusiasm by the majority of constructive thinking Englishmen. Temporarily, the conservative government has succeeded in soft peddling Lloyd George's new deal plagiarisms; has warded off extravagant public works expenditures; has compromised on building projects for the poor; cast free trade traditions to the winds by imposing tariff protection for defunct home agricultural industries; pacified the depressed shipbuilding areas by the construction of the Queen Mary; pandered to Punjab mentality by dissemination of propaganda of English supremacy, both domestic and colonial, and continuous insistence on the virtues of an isolated and purely British program of currency manipulation.

Meanwhile, building projects of chimeric value are launched with extravagant hopes; instalment buying discounts future prosperity. Pound notes freely spent represent the liquidation of invested capital, since interest rates are too low to encourage the retention of conservative investments.

And so England continues enjoying an artificial boom of prosperity, similar to the pre-depression days of 1928

in the United States, complacently temporizing until the inevitable political reshuffle of present standpat politicians.

\* \* \*

### English Commentary on the Dollar

According to authorities in London, financial developments during the ensuing months depend primarily upon the course of the dollar. Through English eyes, the natural trend of the dollar is to appreciate except in so far as that movement may be offset by continued purchases of gold and silver by government intervention. British economists expect opposition to grow against President Roosevelt's move toward higher taxation of large incomes. But looked at purely technically the move to increase taxation in the United States should be regarded, however, as a bullish point. There is a yawning deficit between income and expenditures and the quicker that deficit is bridged by additional taxation, according to British opinion, the better it must be for the position of the dollar. Yet it is observed that the margin between current revenue and expenditures has now become so wide that no feasible measures of new taxation can hope to bring about equilibrium. Still, foreign speculators regard the dollar as so undervalued at the current level that it is most unlikely to be driven below its present exchange value. If this tendency should materialize, it would only be necessary for American authorities to draw in their horns and stop temporarily external purchases of gold and silver.

\* \* \*

### The Return to Royalty

Although the days of absolute monarchy are confined irretrievably to the limbo of the past, current sentiment in Europe has shown a perceptible swing from Red to Royalist tendencies. The overwhelming increase in circulation of the *Action Française* (French Royalist publication), the unbounded Jubilee enthusiasm manifested in England, the reported increasing responsibility of King Leopold in the direction of Belgian politics, the decision of the Austrian Government to sanction the return of the Hapsburgs, bear witness to this assumption.

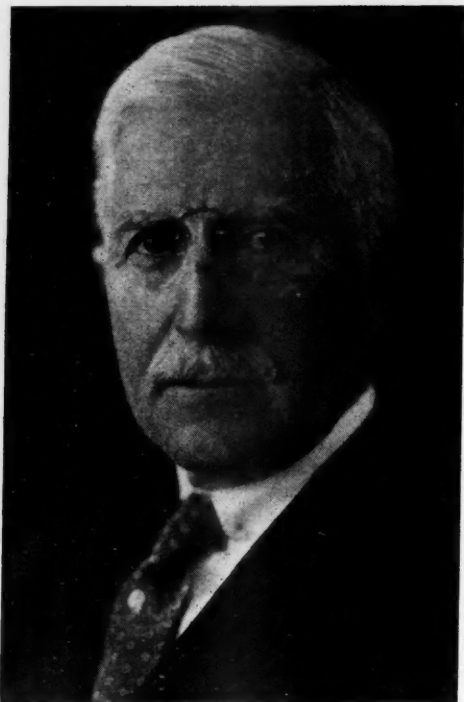
It will be recalled that the royal match-making between the Duke of Kent and Princess Marina was destined to link, however tenuously, the House of Windsor with a possible future Greek monarchy. This matrimonial venture has resulted in tangible blessings represented by a loan of approximately 20 million drachmas for "defensive armaments"—a large proportion of which will obviously be purchased in Great Britain.

While it is an exaggeration to infer that the Royalist movement on the Continent will achieve a decisive victory, it is none the less pertinent to observe that the complimentary form of absolute despotism, in a word, modern dictatorship, is definitely on the decline. A new form of government is gradually emerging midway between these two extremes, which while abandoning ideals of laissez-faire, retains the precepts of constitutional rights through the medium of directed parliamentary control.



Wide World Photo.

STANLEY BALDWIN  
England's Conservative Leader



Blank & Stoller Photo

GEORGE M. VERITY

Chairman of the Board, American Rolling Mills Co.

**E**ITHER the most stable theories developed throughout our entire contribution to civilization, as builded on practice and experience, have been entirely wrong, or the philosophy offered us today affecting our social and economic lives is unsound, is unworkable in practice and will ultimately be destructive of any form of government under which individual freedom of thought and action can be maintained.

Work and thrift have comprised the very sub-foundations of our economic structure and it cannot be maintained and continued on any other basis.

The guaranteeing of social security by government, applied to other than those who are entirely dependent—known victims of misfortune—simply represents the beginning of a structure that, carried to any logical conclusion, can of itself easily destroy every vestige of the existing order of things.

All costs of government of whatever nature, be they for administration, for constructive work or for social reform, must finally be borne by that large group of our citizens who work, earn and save. Any suggestion that it can be palmed off on the comparatively few very rich or those of more than average means is entirely misleading.

All taxes must ultimately come from the earning capacity of the nation. If that earning capacity is injured or destroyed through placing a burden of cost on goods produced beyond what the public itself will pay for such goods, the whole structure of trade and commerce, which depends upon a profitable exchange of goods and services, breaks down and the Government itself will sooner or later face bankruptcy.

# The New Social and Economic Philosophy

As a people we must get out of the befogged atmosphere in which we have been living and come out into the clear sunlight of fact and substance. It is extremely foolish for any of us longer to delude ourselves with the thought or hope that by some hook or crook we are going to profit through some new scheme which will bring about a redistribution of wealth, already created.

If all of our fixed property could be turned into liquid wealth and if in such form it was equally divided between us all, it would not affect our problem of support of government or of social reconstruction one iota.

In so short a time that it would seem as nothing, we would be back where we were, dependent on the creative energy of our citizenship. Destroy creative energy and there can be no civilized form of government.

These few fundamental facts, not theories, should be told and retold in every way possible; until the great masses of our people can get out from under the many delusions which have been thrown around them and under which they have been hoping that some miracle of good fortune would be taken from the hat and dropped into their laps. They must come to see that old fashioned work and thrift have made civilization what it is, that no government can go on spending billions for artificial stimulation of our business activities and at the same time place every possible obstacle and restriction on their sound and efficient operation, and still develop for us anything that can be called prosperity.

Progress comes from an increase in wealth and not from the creation and spread of poverty through some Elysian but impractical scheme, labeled as wealth sharing.

No matter how unwillingly they may do it, if our representatives in Congress are, through political domination, forced to go on and enact new legislation, still further destroying every hope of our millions of security holding citizens, of any return on their investments, the result will be so disastrous it will require the continued effort of several generations to right the wrong that will have been done.

Unless our whole scheme of pyramiding bureaucratic control and of giving government support to everything and everybody is quickly and radically changed, anything we have known about taxation burdens in the past, will be as a mere beginning of those which are still to come.

One of a Series of Guest Editorials by Leading Men of Industry

# Recovery Fostered on Business Principles

Reconstruction Finance Corporation  
Is Making Admirable Record

By JOHN C. CRESSWILL

ACCORDING to the Treasury statement for June 29 the depression had cost the Government of the United States \$15,807,000,000 up to the end of the fiscal year 1935, so far as funds for that purpose were actually expended through emergency organizations. Of that sum \$6,346,000,000 passed through the hands of the Reconstruction Finance Corporation. The Corporation, itself, says that it disbursed \$7,349,000,000. The discrepancy, a minor one in these days when a million dollars is but small change in the fiscal affairs of the Government, can doubtless be explained by a raft of footnotes in the Treasury statement and by the turnover of repayments received by the R F C.

Congress has come to use the R F C as a ready cash medium for all sorts of emergency disbursements, and has at the same time provided that institution with a direct pipe line into the vaults of the Treasury. Whenever the R F C runs a few billions short it gives its IOU's to the Treasury, keeps the proceeds on deposit there; checks against them as it needs cash. The Treasury, in turn, sells bonds and notes whenever Jesse Jones finds his money running low.

Originally, besides its capital of \$500,000,000, the R F C was endowed with authority to float its obligations to the extent of \$1,500,000,000. By virtue of later amendments this authorization was increased, net, to \$5,550,000,000, giving the Corporation a total working capital of \$6,050,000,000—enough to buy all Mexico outright.

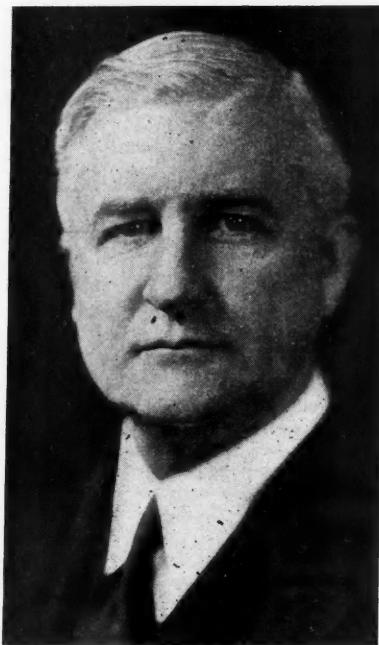
With such vast resources and the unlimited possibilities, of lending to public and private agencies in real or fancied distress, or of handing out money for keeps during a period in which distress was universal and donations were the order of the day, the R F C has not lacked for customers. Indeed, if it had not been somewhat glass-eyed and somewhat limited by Congress it could easily have trebled its loans. As it is, the R F C is undoubtedly the greatest

loan bank in the world as well as a prodigious Santa Claus.

The reports of the R F C are nowhere examined with more interest than in the library of a certain residence in Palo Alto, Calif., where former President Hoover vindicates himself to himself when he is faced with the charge that he did nothing about the depression. R F C is his emergency baby and it was frantically on the job for 14 months before the present administration came into power, although the latter deserves unstinted credit for making it the all-around George Cashier of the emergency pay-off mess.

For more than three years now R F C has been the fire department, emergency hospital and convalescence sanitarium of American private finance and business. In the first months of its existence its main job was to rush to the

rescue of banks, succumbing to the demands of scared depositors who demanded all their money on the spot. At that time one of the commissioners was on duty at the head offices in Washington all night, and on more than one occasion, thanks to telegraph and long distance telephoning, airplanes laden with cash swept down from the skies to reinforce hard pressed banks as frantic customers mobilized for the last charge on the tills. The rescue and salvage work done in those dark days might perhaps have prevented the general run on the banks which set in after the elections of 1932 and culminated in the temporary closing of every bank in the country, by proclamation of governors or the President, in the first part of March, 1933, if it had not been for the fatuous policy of Congress in requiring the monthly publication of the loan records of the Corporation. Under that practice the medicine the R F C gave to ailing banks was often taken as proof of fatal illness, and then public rumor administered the *coup de grace*. Thousands of commercial banks, trust companies, building and loan associations, life insurance companies, mortgage loan companies, the various



Underwood Photo.

JESSE H. JONES  
Chairman, R. F. C.

for AUGUST 3, 1935

classes of Federal agricultural banks, agricultural credit corporations and livestock credit corporations were saved or mightily helped in their distress.

The tottering railroad companies were invited to have some money if they liked. And did they like? When a bond couldn't be floated or a nickel borrowed at the private banks up stepped the R F C with fat rolls of cash.

When nobody else would bet on the future of the U. S. the R F C poured out Uncle Sam's money in lavish bets on himself.

### A Stake in Banking

By virtue of a flock of amending laws, R F C's beginning functions and resources were greatly expended. Groping to their feet from the chloroforming of the bank holiday those first ten days of March, 1933, the banks found the R F C empowered to enter into partnership with them; not so much to save as to strengthen and equip them for constructive service. The partnership took the form of purchase of preferred stock or loans thereon and the purchase of the notes and debentures of banks. On top of almost \$2,000,000,000 lent to banks and trust companies under initial authority the banks got over a billion dollars by selling themselves in part to Uncle R F C. In its beginning, loan period, R F C helped 7,345 banks and trust companies, and in the later, investment, period it took on more than 7,138 banks—largely duplications, of course.

Broadening out to reach all the living casualties of the depression that seemed to have some claim on life, R F C came to lend to industry and commerce direct and to institutions principally engaged in financing the sale of electrical, plumbing, air conditioning devices and other household appliances. Herein the R F C appeared for the first time as a promoter of business. Other expansions of its field took R F C into a lot of loans for the benefit of various types of agricultural improvement districts, such as drainage, irrigation, etc.; as well as capital loans to industry.

After this boost to deserving ruralites the great financial doctor corporate turned back to the banks again, this time for conversion of the dead. Loans were made to the receivers or conservators of closed banks to help clear up the wreckage of the bank holiday and the troubles that preceded it. Then came loans to mining and smelting companies, loans to school districts to pay teachers, loans to the fishing industry, loans to repair damages by floods and other natural catastrophes, loans for the orderly marketing by institutions of agricultural products and livestock, loans to facilitate exports, loans for various sorts of agricultural financing, loans to receivers of farm lands for the purpose of paying taxes, advances to the reclamation fund, purchase of securities from the Public Works Administration, purchase of debentures or other obligations of the Federal Deposit Insurance Co.

Some of the foregoing credit items touch on governmental institutions but the major function of R F C in financing governmental agencies has been through allocations—grants—to the Sec-

retary of Agriculture and F C A for crop loans to farmers; to the Farm Credit Administration for loans to joint stock land banks and for direct loans to farmers; advances to the Federal Emergency Relief Administration, advances for the capital of the Federal Home Loan Banks and of the Home Owners Loan Corporation, and for financing of the Federal Housing Administration. At one time the R F C sponsored a group of 12 regional agricultural loan corporations which were later transferred to the F C A. And before the advent of P W A it was handling the then much talked of self-liquidating loans to business enterprises—\$158,000,000.

### Repayments Mount into Billions

The grand total of loans, public and private, and purchases of bank and life insurance company preferred stocks and stocks of governmental corporations, as actually disbursed at the end of last June, was \$5,319,000,000, of which \$2,853,000,000 *had been repaid*. The balance is an asset which will largely come back to the R F C or to the Government at some time in the future. It is all owed, but some of it may not be collectible. Congress may some day wash out loans like those through the governmental Commodity Credit Corporation, but those particular loans seem to be good business. The first year's corn loans have been entirely repaid—\$125,000,000; the cotton loans have been repaid to the extent of \$151,000,000 on \$294,000,000. These commercial assets of the R F C must be kept in mind as an offset in the end against the grand total of relief and recovery charges.

But while the R F C is a lender, a business-like lender, in one department, it is a donor in another department of its work. By instruction of Congress it has been a mere allocator of \$730,000,000 to various governmental agencies. It will never see again the \$730,000,000 it has distributed to them for various purposes and uses, although it will all nominally come back to the Government in some capacity as cash or property. Such are the allocations to the Home Owners Loan Corporation and the Federal Home Loan Bank, the Federal Farm Loan Commission (F C A), and Federal Farm Mortgage Corporation—for capital; Federal Housing Administration; Secretary of Agriculture, for crop loans, for capital of agricultural credit corporations, and for production credit corporations.

But the \$300,000,000 handout the R F C gave the states for relief in 1932, the \$500,000,000 it passed over to Harry Hopkins to shovel out to the states for relief in 1933, and the \$500,000,000 it produced under the emergency appropriation act of 1935—they are all gifts, which will be repaid only in gratitude, with a large deficit at that. Yet, all told, R F C can claim assets, dubious or not, of more than \$4,000,000,000.

The R F C has made about 20,000 loans and investments. Included in them are 7,349 loans, and 6,872 investments in the stock, notes and debentures of banks. Closed banks to the number of 2,630 (as of June 30) have had \$822,000,000 to hasten settlements with de-

(Please turn to page 418)

### Highlights of the Biggest Banking Project in the World

Capital of R F C.....	\$6,050,000,000
Loans and Investments.....	5,319,000,000
Repayments.....	2,853,000,000
Awaiting demand by authorized borrowers.....	949,000,000
Relief Disbursements.....	1,300,000,000
Recovery disbursements to government agencies...	730,000,000
(Loans and Investments will probably pay out in full—Recovery disbursements represent ultimate cash or permanent capital investment in Government credit institutions.)	
Total number of loans.....	29,000
Number of bank financings (about 14,000 banks)...	22,000
Number of Bank depositors (failed banks) helped...	2,130,000
Building and Loan associations assisted.....	1,221
Individual business financing.....	1,000
Mortgage companies helped.....	606
Railway companies helped.....	73
Insurance companies helped.....	204

# Semi-Annual Dividend Forecast

## Part I—Railroads, Motors and Accessories, Liquor, Machinery and Electrical Equipment, Farm Implements, Office Equipment

WE are now well into the third year of economic recuperation and despite its irregular course the results are cumulatively reflected in a rising trend of aggregate corporate earning power and a consequently more liberal distribution of dividends to investors. The year to date has produced hundreds of favorable dividend changes and has established the foundation for many more extra payments or increased rates in coming months.

The investor's interest is not alone in this generally favorable trend, but more specifically in developments and dividend prospects in individual companies, some of which set the pace while others lag behind. It is to serve this specific interest that Part I of our expanded Semi-Annual Dividend Forecast is herewith presented. Parts II and III, including such industries as steel, metals, chemicals, food, building, tobacco merchandising, oil, amusements, aviation,

utilities and others, will follow in the issues of August 17 and August 31, respectively.

Of the groups covered in following tables and comments only one—the railroads—has failed to experience a heartening recovery. The combination of continued depression in freight traffic and burdensome funded debt makes the rail dividend outlook none too cheerful, with few exceptions. But in the other groups, notably Motors, Motor Accessories and Office Equipment, will be found some of the brightest features of the year. Liquor earnings for the present seem more impressive than liquor dividends. Machinery, Electrical Equipment and Farm Implements show a strong recovery trend from a low base, pointing the way to future dividend action.

The tables and comment comprising this service are accompanied by our usual investment ratings, as explained in the table herewith.

*Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters A, B, C and D are applied in rating the industry; and the numerals 1, 2, 3 and 4 in rating the position of the company in that industry. Thus:*

INDUSTRY	COMPANY
A—In a strong and expanding position.	1—Large current earnings; dominant in field; strong financially.
B—In a fairly strong and stable position.	2—Good potential earnings; important company; good financial position.
C—Depressed but prospects for recovery moderately favorable.	3—Earnings still relatively low; fair financially; business volume moderate.
D—Depressed; declining profits; no signs of nearby improvement.	4—Doubtful outlook; weak financial position; unprofitable operations.

## Railroads Still Need Traffic

THE same problems which have long menaced the railroads in the United States remain unsolved and the hopeful implications of rising industrial activity and improved crop prospects are overshadowed by the uncertainties surrounding the nature of the railroad legislation—which may or may not be enacted by the present session of Congress.

There is at the present time, before Congress, a veritable welter of legislation affecting railroads either directly or indirectly and in the present state of restlessness evident in the two legislative bodies, it is impossible to determine which of the pending bills will be enacted, or which will be allowed to die. The principal laws which would favor the railroads include, regulation of interstate bus and truck carriers, amendment to the Bankruptcy Act to empower courts to declare reorganizations effective regardless of minority objections, and the extension of the Emergency Transportation Act to June 17, 1936. On the other hand several bills are being pressed by railway labor which are estimated, if enacted, would add a billion dollars to operating expenses annually. These bills include a pension bill to supplant the one declared unconstitutional earlier this year, and while responsible advices doubt that any of these labor laws will be passed in the present session, the political

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strength of railroad labor strongly suggests that further proposals of the same type will continue to be brought forward. Moreover, the Social Security Bill is a definite part of the "must" legislation, the provisions of which would add to the burdens of the railroads. And if further evidence is required that the Government has no definite program for ameliorating the plight of the railroads, it is only necessary to note that the recently enacted Public Works Bill provides more than \$100,000,000 for the development of inland waterways which have long been a thorn in the side of the rail carriers.

In the meantime, while the legislative prospect remains shrouded in uncertainty, there is scant basis for optimism in the earnings and financial position of the majority of roads. The physical volume of freight traffic carried by Class I roads in the first six months of 1935 was nearly 2% under that for the same months of 1934 and carloadings declined steadily from February through May and recovered somewhat in June owing to the unseasonably heavy movement of bituminous coal, when a strike appeared to threaten. Gross revenues were 0.5% higher in the first five months than a year ago, but an increase of nearly 4% in operating expenses brought a decline of 13% in net operating income. The results in May are particularly

significant, in view of the fact that they reflect both the full restoration of wage scales and the recent increase in rates granted to the roads. Gross income of about \$280,000,000 was 0.9% lower than in May, 1934, operating expenses of \$209,200,000 were 0.4% lower than a year previous and net operating income of \$39,505,000 declined 0.5%. Operating expenses required nearly 75% of gross revenues and the return on property investment amounted to only 2%. In the first five months of this year, despite a moderate increase in gross, the operating ratio of 77% was the highest since 1923, a condition largely due to the restoration, by government order, of the 10% wage cut previously in effect. It is only too obvious that the railroads and their security owners are practically at the mercy of government regulation.

Financially, many roads continue seriously handicapped. One-fourth of the railroad mileage in the United States

is in receivership, and about 80% of it is failing to earn fixed charges. Borrowings from banks and the R F C remain at a high level and it would not be surprising if one or two other large systems sought the protection of the courts before the year is out. In the meantime, reorganization of those roads now in receivership is not making much progress, due to difficulties in reconciling the interests of various security holders. It is practically a foregone conclusion, that any reorganization consummated at this time will of necessity be drastic, in order to restore public confidence to a point which would permit railroads to finance themselves publicly, and "bail out" the R F C.

Aside from those few roads which achieved outstanding records through the depression in support of their current dividend prospects, there is little in the near term railroad outlook upon which to base dividend hopes for the majority of holders of railroad common stocks.

### Position of Railroad Common Stocks

Railroad	Earned Per Share		Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1935(e)	1935 High	Low					
Atchison.....	0.33	1.00	55½	35¼	54	2.00	3.7	C-1	Traffic and revenues holding up well. Finances strong. Further special dividends likely.
Atlantic Coast Line.....	Nil	Nil	37¼	19½	22	....	....	C-3	Earnings adversely affected by lower L. & N. dividend. Finances fair. Shares speculative.
Baltimore & Ohio.....	Nil	Nil	15	7½	12	....	....	C-3	Finances somewhat impaired and increased costs cut net.
Bangor & Aroostook.....	4.96	5.00	45	36½	44	2.50	5.7	C-1	Earnings assure adequate dividend coverage. Shares attractive for income.
Canadian Pacific.....	0.07	0.10	13¾	9¾	10	....	....	C-2	Finances satisfactory, but earnings improvement slow. Shares have long term merit.
Central Railroad of New Jersey...	Nil	Nil	55½	34	42	....	....	C-2	Recovery slow, but potential earnings large. Finances sound.
Chesapeake & Ohio.....	3.67	3.50	45¾	37½	45	2.80	6.2	C-1	Sustained earnings and strong finances would support higher dividend.
Chic., Mil., St. Paul & Pac.....	Nil	Nil	3	¾	¾	....	....	C-4	Proposed reorganization provides ½ share for each share of common.
Chicago & Northwestern.....	Nil	Nil	6¾	1¾	2	....	....	C-4	Reorganization may be drastic. Position of common obscure.
Chic., R. I. & Pacific.....	Nil	Nil	2¾	¾	¾	....	....	C-4	No reorganization probable for some time.
Delaware & Hudson Co.....	1.87	1.75	43½	23½	32	....	....	C-2	Company's portfolio of considerable potential value. Shares may be held for longer term.
Delaware, Lack. & Western.....	Nil	Nil	19½	11	15	....	....	C-2	Important road with large potential earning power. Financial position secure.
Erie.....	Nil	Nil	14	7½	9	....	....	C-3	Traffic and earnings have lagged this year. Dividend prospects remote.
Great Northern (Pfd.).....	Nil	0.50	22¾	9¾	21	....	....	C-2	Finances comfortable and earnings should reflect better crop movement.
Illinois Central.....	Nil	Nil	17¼	9½	14	....	....	C-3	Gross up, but heavier expenses cut net below last year. No dividends for some time to come.
Kansas City Southern.....	Nil	Nil	8¾	3¾	6	....	....	C-3	Recovery lagging. Finances fair but earnings prospects dull.
Lehigh Valley.....	Nil	Nil	11½	5	7½	....	....	C-3	Borrowings heavy and adverse factors may permanently retard recovery.
Louisville & Nashville.....	2.54	2.50	47½	34	40	2.00	5.0	C-2	Outstanding financial strength; no floating indebtedness. No further change in dividends likely.
Missouri-Kansas-Texas.....	Nil	Nil	6¾	2¾	3	....	....	C-3	Current prospects better but resumption of adjustment bond interest not imminent.
Missouri Pacific.....	Nil	Nil	3	1	1¼	....	....	C-4	Reorganization still some time away.
New York Central.....	Nil	Nil	21¾	12¼	18	....	....	C-3	Larger gross nullified by increased costs. May float large bond issue later this year.
N. Y., Chic. & St. Louis.....	Nil	Nil	13	6	8	....	....	C-3	Finances fair and October maturity likely to be extended, but dividends remote.
N. Y., N. H. & Hartford.....	Nil	Nil	8½	2¾	4	....	....	C-3	Restricted financial position and earnings. Good dividend prospects.
N. Y., Ont. & Western.....	Nil	Nil	6	2¾	3	....	....	C-3	Finances in dire need of improvement. Divs. remote.
Norfolk & Western.....	13.90	14.50	183¼	158	182	10.00*	5.5	C-1	Reduction in funded debt enhances strong equity position of shares.
Northern Pacific.....	0.36	0.35	21¾	13½	19	....	....	C-2	Prospective increase in wheat crop should aid later earnings. Finances strong.
Pennsylvania.....	1.43	1.50	25¾	17¼	26	1.00	3.9	C-1	Current earnings hold close to 1934 levels. No dividend change indicated.
Pere Marquette.....	Nil	Nil	19	9¼	13	....	....	C-3	R. F. C. Loans extended, finances fair but no earnings available for common stock.
Reading Co.....	2.06	1.75	43¾	29¾	35	2.00	5.7	C-1	Strong financial position supports security of dividends.
Southern Pacific.....	0.11	0.25	19¾	12¾	19	....	....	C-2	Finances secure and current earnings up. Shares speculatively attractive.
Southern Railway.....	Nil	Nil	16½	5½	7	....	....	C-3	Impaired finances and doubtful traffic prospect account for recent weakness.
Union Pacific.....	6.63	6.00	111½	82½	105	6.00	5.7	C-1	Current earnings somewhat lower, but dividends appear secure.
Western Maryland.....	Nil	Nil	9¾	5½	7¼	....	....	C-3	Finances fair and earnings may show moderate improvement for full year.

(e)—Estimated. \*—Incl. extras.

# Liquor Companies' Earnings Encouraging

ONE of the most apparent anomalies in the present market is the conservative manner in which the earning power of representative liquor companies is appraised. It is hardly more than two years ago when liquor stocks, or for that matter the stocks of almost any company remotely connected with the liquor industry, were being skyrocketed, and fantastic estimates were being made of the potential earning power of the various companies, once Repeal became an actuality. The boom in liquor stocks collapsed and the extravagant estimates have not even been approached. Yet in the eighteen months since Repeal, leadership in the industry has been clearly established by a handful of the larger companies and, judged by any reasonable standard, the earning power developed by these companies has been quite satisfactory.

The fact, however, that quotations for leading liquor shares appear lower than might otherwise be warranted by late earnings is undoubtedly due to the presence of several factors which have arisen since Repeal and which inject some doubt into the probable trend of future earnings. To be sure the initial impetus which was imparted to distillers' sales by the necessity of stocking retailers, hotels and clubs produced abnormally high returns at the outset, which could not reasonably be expected to be sustained, and the time which has elapsed since repeal has not been sufficient to obtain a clear idea of normal earnings. Further, attempts to arrive at a satisfactory basis for gauging future earnings are handicapped by uncertainties arising from continued bootlegging, lower prices, the need for large working capital to finance aging stocks of liquor, and the manner in which Congress will provide for Federal supervision of the industry to supplant the former liquor codes. These factors, it may be presumed, outweigh in the minds of the investor the opportunity to acquire the shares of leading distillers at a low ratio to current earnings.

As has always been the experience in this country, the early stages of a new industry (Repeal virtually created a new industry) are marked by mushroom growth ending in the survival of only the fittest. Many interests without previous experience were attracted to the liquor industry,

deceived by the comparatively small initial capital outlay required and the promise of quick profits. At the outset a chaotic competitive situation developed but fortunately illusions soon gave way to realism and the mortality rate in all branches of the industry has been extremely high during the past eighteen months. There will be a further elimination of uneconomic competition as the money runs out and public preference becomes more and more concentrated in the reliable products of the large national distributors. In a comparatively brief time, therefore, the overcrowded position of the industry seems likely to correct itself.

There has been a general adjustment downward in prices during the past year, and while profit margins are narrower, increased consumption should take up some of this slack. Consumption, according to Government tax figures, is less than 60% of pre-war levels despite the interim increase in population, but these figures do not give effect to the continued large sale of illicit liquor. Bootlegging is still a profitable venture, for the heavy Federal and State taxes imposed upon liquor represents handsome margin of profit for the bootlegger. The Government still pursues its efforts to stamp out this evil, as against the more effective method of reducing taxes, and from all indications there is little likelihood at this time of any change in this policy.

From the standpoint of bootlegging, it is regrettable that the liquor control bill recently passed by the House will permit the purchase by hotels, clubs and wholesalers of liquor in bulk, as against the former regulations which made it compulsory that all sales be made in bottles properly labeled. Should this new provision become law, obviously it will permit considerable latitude for the sales of illicit liquors. It is to be hoped that the Senate will be effectual in having it removed from the final bill.

The leading distillers continue to divert a substantial part of their production to storage for aging purposes. While this is a sound policy looking toward the future, it ties up a substantial portion of working capital. It has made it necessary for these companies to husband their cash, thereby postponing the inauguration of dividends or restricting payments to a very conservative portion of earnings.

## Position of Leading Liquor Stocks

Company	Earned Per Share		Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1935(e)	High	Low					
Distillers Corp.-Seagrams.....	0.66(a)	5.00	22 1/2	13 3/4	21	....	....	B-2	Company's merchandising policies have been outstandingly successful and have resulted in strong trade position. Stocks of aged whiskies, largest in North America. Heavy outlays for new plants may restrict dividends, but payments may shortly be forthcoming.
National Distillers.....	5.51	4.00	29 1/4	23 1/8	27	2.00	7.4	B-2	Company is the largest domestic factor and is accumulating large supplies of aging liquor. Lower profit margins this year but earnings likely to cover dividends by a good margin. Shares have merit for income. Earned \$1.41 in first 6 mos. vs. \$2.87 a year ago.
Schenley Distillers.....	6.63	5.00	33 3/8	22	30	....	....	B-2	Dividend policies may continue conservative in order to permit accumulation of aged liquor. Company is second largest domestic manufacturer and distributor. Finances improved but dividends will depend on company's ability to enlarge cash. Earned \$2.88 in first 6 mos. vs. \$4.07 in first half of 1934.
Hiram Walker.....	4.43(b)	6.00(b)	32 3/8	23 1/2	26	....	....	B-2	Although earnings would justify inaugurating payments to common share holders, company is still expanding U. S. facilities and may require large working capital. Recent \$2,500,000 fire may further tend to defer payments. Shares reasonably valued on earnings basis.

(a)—Fiscal year ended July 31. (e)—Estimated. (b)—Fiscal year ended Aug. 31.

# Motor Sales Sustain High Level

More Than Seasonal Volume Improves  
Earnings for Large Automobile Manu-  
facturers and Accessory Companies

IT is to be doubted whether automobile manufacturers even in their most optimistic moments really thought that automobile production could soar in the way it has this year; and that it could have been so long sustained undoubtedly is surprising them even more. For June, output was something in excess of 350,000 units, bringing the total for the first six months to about 2,347,000, or roughly 31% above the output for the first six months of 1934. Moreover, all reports received for July indicate that this month too, considering the season, has opened very favorably. While it is perhaps guessing too far ahead, it is estimated currently that 1935 output will reach a total of 3,600,000 units, or higher than in any year since 1929.

## Production vs. Profits

Yet, although from the production standpoint this year has been, and promises to be, more than a reasonable man could hope for, those interested in the automobile from the security standpoint will wish to go into the question a little more thoroughly. They will quickly discover two important things: (1) That although the drift towards the low-priced field is not as strong as it was, buyers seeking larger and more expensive cars are obtaining them for the most part either from General Motors or Chrysler (both among the main contenders in the low-priced field) instead of from the independents. (2) That squeezed between higher costs on the one hand and still keener competition

on the other, profits, while comparatively good, are not what they should be in view of the output.

It is disheartening, of course, to a stockholder in one of the smaller organizations to see his company's output increase and yet know that it is accounting for a smaller percentage of the available business. It is, however, a fact which must be faced, particularly in the light of what will probably happen when the present cycle of automobile prosperity burns itself out and production starts on the way down again.

Of some general concern to the automobile stockholders is the manner in which used cars seem to be piling up again. Some months ago this had developed into rather an acute situation, but intensive sales drives on the part of dealers, ably backed by the manufacturers through advertising over the radio and in papers, relieved matters to the point where sales of new cars were not being appreciably handicapped by stocks of used vehicles. It seems, however, since the code restrictions on trade-in allowances were abandoned, that dealers are again paying excessive prices for used cars and that in consequence stocks are again piling up. This situation possibly could have some bearing on sales of new cars later on in the summer, but whether it actually will only time can tell.

## Dividend Prospects

So far as dividend prospects for this year are concerned, only three automobile companies and one truck company

## Position of Leading Motor Stocks

Company	Earned Per Share			Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1st 6 mos. '34	1st 6 mos. '35	High	Low					
Auburn.....	def a	def b	def b	29 $\frac{1}{4}$	15	22	....	....	B-3	While the most recent report disclosed a smaller loss company will have a hard time regaining its remarkable past earning power.
Chrysler.....	2.19	1.88	4.31	57 $\frac{1}{4}$	31	56	1.00*	1.8	B-1	Declares another 25 cents extra; others are possible later.
General Motors.....	1.99	1.51	1.85	38 $\frac{1}{2}$	26 $\frac{1}{2}$	37	1.00	2.7	B-1	Extra within the near future likely.
Graham-Paige.....	def	Nil	0.05(1)	3 $\frac{1}{2}$	1 $\frac{1}{4}$	2	....	....	B-3	Shipments so far in 1935 have been the best in years.
Hudson.....	def	def	0.15(1)	12 $\frac{3}{4}$	6 $\frac{1}{4}$	8	....	....	B-3	Company has been coming back fast, but will have to enjoy even further improvement before a clear future can be seen.
Hupp.....	def	def	def E	3 $\frac{3}{4}$	3 $\frac{1}{4}$	2	....	....	B-4	Internal quarrels have handicapped this organization.
Mack Trucks.....	0.03	0.23	def (1)	28 $\frac{1}{2}$	18 $\frac{1}{2}$	21	1.00	4.8	B-2	Although currently light trucks are meeting with a much better demand than heavy vehicles, the expected improvement in construction shortly should help the latter—and Mack which manufactures them.
Nash.....	def a	def b	def b	19 $\frac{1}{2}$	11	13	1.00	7.7	B-3	Despite strong finances, present dividend is not wholly assured, for the company is still fighting for its position in the low-priced field.
Packard.....	def	def	0.02	5 $\frac{1}{2}$	3 $\frac{1}{2}$	5	....	....	B-3	Now, lower priced car meeting with good demand.
Reo.....	def	def	0.01(1)	4 $\frac{1}{4}$	2 $\frac{1}{4}$	3	....	....	B-3	Does better, but still has much ground to regain.
Studebaker.....	N. F.	N. F.	N. F.	3	2 $\frac{1}{4}$	3	....	....	B-4	Out of receivership, the company starts with a clean slate.
Yellow Truck.....	def	Nil	def (1)	4 $\frac{1}{4}$	2 $\frac{1}{2}$	3	*	....	B-4	Large arrears on preferred; outlook for the common obscure.

a—Year to Nov. 30. b—Six months to May 31. (1)—1st quarter. E—Estima'ed. N. F.—Not available. \*—Plus extras.

are involved. The automobile companies include the two big producers in the low-priced field and in both cases there is a prospect, and a good one, of stockholders obtaining more than they are receiving currently. The other automobile company, Nash, is making a valiant fight for its LaFayette in the low-priced field. If it succeeds, the present dividend is more than safe; if it fails, or the matter proves to be a long drawn out struggle, the dividend eventually may be cut or passed altogether.

The demand for trucks so far in 1935 (according to registrations for the first five months) has been about 30% greater than in 1934. Although this hardly compares with the increase of more than 50% in the demand for passenger cars, nevertheless it is a very substantial increase. It is to be noted, however, that the greater demand for trucks has been almost entirely for lighter vehicles, the sales of heavy vehicles having been somewhat less this year than last. It is doubtful, however, that such a divergent showing can continue indefinitely. Construction is on the upgrade and, although concrete benefits to heavy truck manufacturers are meager as yet, the outlook undoubtedly is much improved.

### Motor Accessories

As has been pointed out many times before, the automobile accessory companies are beneficiaries of a high rate of automobile production, no matter which automobile company obtains the lion's share of the market. Thus, it should occasion no surprise to note that there is hardly a well-known accessory company which has not made some

money this year. Relatively the improvement in the accessory companies has been much more general than in the automobile companies proper.

With the possible exception of the tire companies which continue to suffer from price restricting competition on the one hand and uncertain raw material prices on the other, stockholders in the accessory companies have been well treated. Dividends have followed earnings promptly and closely and there is no reason to expect managements to change this policy; indeed, some are on record as having stated that they would pay out to stockholders substantially all earnings. Thus, generally speaking, the dividend prospect is more closely than usual the earning prospect.

### Outlook Bright

This is reasonably bright. Automobile production naturally will begin to fall off shortly, but it will not be long before many accessory companies are receiving orders for parts for new models and, with general business on the upgrade and with the weight of the evidence pointing to an active fall and winter, the groundwork will be laid for another good automobile year in 1936.

Beyond this it is not easy to generalize about the accessory companies; their activities are too diverse, and becoming more so as a greater number of companies seek to effect a measure of independence from the automobile. It is important that stockholders follow carefully these sorties into other fields. Sometimes they are most successful in increasing earning power and stabilizing the company's business; in other cases they merely result in loss.

## Position of Leading Motor Accessory Stocks

Company	Earned Per Share			Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1st 6 mos. '34	1st 6 mos. '35	High	Low					
Bendix Aviation	0.90	0.73	0.76	18	11½	17			B-2	In a prospective payer of dividends in the near future.
Bohn Aluminum	4.31	3.23	2.70	59½	39½	47	3.00	6.4	B-2	While earnings have fallen, current rate is reasonably assured.
Borg-Warner	3.06	1.89	2.51	45¼	28¼	45	1.50	3.3	B-1	Earnings warrant a higher regular rate or substantial extras.
Briggs Manufacturing	2.64	1.83	3.40E	37¼	24¼	36	2.00	5.6	B-1	Present dividend being covered by an ample margin. May pay an extra.
Eaton Manufacturing	1.44	1.16	1.53	23¾	16¾	22	1.00	4.5	B-2	In view of the earnings reported for the first six months, stockholders may benefit moderately in addition to regular disbursement.
Electric Auto-Lite	0.78	N. F.	0.53(1)	29	19¾	25			B-2	Outlook improved. May make small distribution to stockholders this year.
Evans Products	5.42	5.20	1.09	23¼	15	16	1.00†	6.2	B-2	Earnings off. Turning to other fields with promising success.
Firestone Tire & Rubber	0.71a	0.06b	0.40b	18½	13½	15	0.40	2.7	C-2	No change in the present dividend rate anticipated.
Goodrich (B. F.)	0.41	N. F.	N. F.	11½	7½	8			C-3	Refunding bonds to reduce fixed charges will help common stockholders.
Goodyear Tire & Rubber	Nil	N. F.	N. F.	26¾	15¾	20			C-3	Arrears on the preferred will have to be liquidated before the common can expect anything.
Hercules Motors	0.69	0.30	0.30(1)	25½	11	22	0.60	2.7	B-2	Doing much better. Could pay more.
Houdaille-Hershey "B"	0.63	0.64	1.01(1)	18	6½	17			B-2	Liquidation of arrears on the "A" stock greatly improve the dividend prospects for the "B."
Kelsey-Hayes Wheel "A"	1.12	0.80	3.23	23½	6	23			B-2	Doing better, but dividends may wait awhile.
Marlin-Rockwell	1.68	0.72	0.56(1)	33	20	31	2.00	6.5	B-2	Has long paid liberally; a higher return than the present cannot reasonably be expected.
Midland Steel Products	Nil	Nil	0.92	19	8¼	18			B-2	A distribution within the near future is possible.
Motor Products	0.69	1.05	1.49(1)	37	17½	35	2.00	5.7	B-1	May pay an extra, but the present dividend is liberal.
Motor Wheel	0.48	0.72	0.30(1)	11¾	7¾	10	0.50	5.0	B-2	Current rate likely to be maintained.
Murray Corp.	def	N. F.	1.50E	12¾	4¾	12			B-2	Helped by Ford activity; may make some distribution.
Raybestos-Manhattan	1.17	1.12	1.20E	21	16½	19	1.00	5.3	B-2	Less volatile than most motor accessories. Will probably maintain current dividend.
Reynolds Spring	1.04	1.14	1.70	23¾	12¾	24	0.40*	1.7	B-2	Additional extras can be expected from time to time.
Spicer Manufacturing	1.37	0.66	0.37(1)	14½	8½	13			B-2	Costs up. May pay something later.
Stewart Warner	0.46	0.43	0.82	12¾	6¾	12			B-2	Coming back fast. Would be a dividend candidate with any further improvement.
Timken-Detroit Axle	0.24	0.11	N. F.	8¾	4¾	8			B-3	Doing better, but near-term distribution to stockholders doubtful.
Timken Roller Bearing	1.44	1.07	0.98(1)	45	28¾	49	1.00*	2.0	B-1	Business much improved; could pay additional extras.
U. S. Rubber	Nil	Nil	N. F.	17¼	9½	13			C-3	As yet paying nothing on the 1st preferred.
Young Spring & Wire	2.09	1.71	0.75(1)	32¾	18	31	1.00*	3.2	B-2	May pay further extras.

a—Year to Oct. 31. b—Six months to April 30. (1)—1st quarter. N. F.—Not available. E—Estimated. \*—Plus extras. †—Paid this year.

# Great Gains by the Equipments

## Prospects Are Bright for Further Recovery in All Divisions

**F**EW, if any, divisions of industry sank lower than the equipments during the depression. Indeed, for many companies in this field business for a while virtually stopped altogether; months with practically no orders at all for railroad equipment, for example. Although the railroad equipment companies today are still laggards, even they are beginning to feel the surge of recovery which is so favorably affecting their contemporaries in other divisions. New York City placed a \$19,000,000 subway car order last month which, with the \$16,000,000 in orders for freight cars and locomotives placed by various roads late in the previous month, the railroad equipments are enjoying an unseasonal spurt which warrants more optimism over the fall prospect.

The essential thing holding back purchases of railroad equipment is the railroads' lack of purchasing power. In curious contrast with the improvement that has taken place in other lines of endeavor, carloadings so far this year are actually under those of last. In the meantime, railroad expenses hold at a relatively high level. Such a combination of circumstances, despite the fact that money may be borrowed from the Government for the purchase of equipment, is sufficient explanation of why more roads have not availed themselves of the opportunity to do so. The crop prospect, however, is much brighter than last year and this, coupled with the expected upturn in general business this fall, provide some reasonable grounds for the hope that traffic will pick up. Certain it is, if traffic does pick up and shows any signs at all of maintaining the higher level, that dozens of roads will buy modern and more efficient equipment.

The office equipment companies have enjoyed their full share of recovery. Not only have business organizations as they made more money sought to replace the office equipment with which they had been satisfied during the depression, but the hundreds of new government bureaus and agencies, to say nothing of the additional equipment required by business to keep track of all the new laws and orders, undoubtedly have played an important part in the

rising tide of orders. Also, some credit must be given to a larger foreign business, particularly in the case of certain companies. As an adverse change in these favorable conditions is most unlikely over the near future, it should occasion no surprise that among the business equipments the chances of stockholders being treated more generously are among the best.

Although the common stockholders of the farm equipment companies have received little tangible benefit as yet, the activity in this division has approached a veritable boom in comparison with the low point of the depression. Many farm equipment plants have been working at capacity and, while it is possible that the industry currently is slowed down somewhat in accordance with seasonal influences, fall prospects are bright and almost nothing can stop comparatively good farm equipment reports for 1935.

When it comes to machinery and electrical equipment—as might have been expected from the diverse nature of the classification—recovery has been general, albeit less uniform than that found elsewhere. Certain machine tool companies have seldom, if ever, been so flooded with orders. The activity in the automobile industry has been largely responsible either directly or indirectly for this, but there has been much modernization of factory equipment generally. During the depression, obsolescence and wear and tear took their toll and now, aided by a demonstrated greater efficiency, a strong tide is running towards new, modern equipment.

For a time, the improvement registered by the electric equipments was practically all in the lighter division of the business—household equipment of all kinds, for example. More recently, however, the seeds of improvement have been seen definitely sprouting in the heavy section. This is particularly gratifying, for the big electrical equipment companies are not geared to attain a full measure of prosperity solely on light manufacturing. That electric power output has gone to new all-time record seasonal highs is excellent confirmatory evidence of the increased business being done by the electrical equipments.

### Position of Leading Equipment Stocks

#### Railroad

Company	Earned Per Share			Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1st 6 mos. '34	1st 6 mos. '35	High	Low					
American Brake Shoe & Fdry.....	0.83	0.53	0.72	\$4½	21	36	1.00	2.8	C-1	Automobile brake lining business has been good. Present dividend seems well assured with later extras possible.
American Car & Foundry. def a	N. F.	N. F.	N. F.	21½	10	21	....	....	C-3	Bookings best in years. If present upturn holds, will be strong dividend prospect.
American Locomotive....	def	def	def E	20¾	9	16	....	....	C-3	Oil refining equipment division does better. Outlook for locomotives improved. Dividend arrears on the preferred.
American Steel Foundries	Nil	0.06	def (1)	18½	12	18	....	....	C-3	Arrears on the preferred must be liquidated before the common can expect anything.

## Position of Leading Equipment Stocks—Continued

### Railroad—Continued

Company	Earned Per Share			Price Range		Recent Price	Dividend	Yield %	Market Rating	COMMENTS
	1934	1st 6 mos. '34	1st 6 mos. '35	High	Low					
Baldwin Locomotive.....	def	def	def E	6½	1½	3	.....	.....	C-4	Working on plan for additional working capital.
General American Transportation.....	2.91	1.24	0.29(1)	44	32¾	40	1.75	4.4	C-1	Present dividend seems well assured.
General Ry. Signal.....	def	def	0.50	32¾	15½	33	1.00	3.0	C-1	Second quarter better than the first. Dividend seems secure.
New York Air Brake.....	0.21	0.11	0.04(1)	28¼	18½	23	.....	.....	C-2	More distant prospect promising.
Pullman, Inc.....	0.77	0.08	0.17(1)	52½	34	45	3.00	6.7	C-2	Financial strength lends assurance as to the maintenance of present dividend.
Union Tank Car.....	1.36	0.67	N. F.	26½	20½	26	1.20	4.6	C-1	No change in the present rate of disbursements anticipated. All debt retired.
Westinghouse Air Brake..	0.21	0.01	def (1)	27½	18	25	0.50	1.9	C-1	New type brake brightens future outlook.

### Business

Burroughs Adding Machine.....	0.65	0.32	N. F.	17¾	13¼	16	0.60	3.7	B-2	Present dividend should be well covered this year.
International Business Machines.....	9.38	4.83	4.94	184¼	149¼	182	6.00	*3.7	B-1	Candidate for additional extras in stock or cash.
National Cash Register..	0.68	0.61	0.12(1)	18¾	13½	17	0.50	3.0	B-2	At least customary 12½ cents a quarter should be maintained.
Remington Rand.....	0.39b	Nilc	N. F.c	11¼	7	10	.....	.....	B-3	Attempting to eliminate arrears on the preferreds by re-capitalization plan.
Underwood-Elliott-Fisher	3.62	1.95	2.06	69½	53¾	67	2.00	3.0	B-1	A higher regular rate or extras reasonably can be expected.

### Agricultural

J. I. Case.....	def	N. F.	N. F.	63	45¼	65	.....	.....	B-2	Was hit somewhat by labor troubles, now fortunately settled. Moderate arrears on the preferred in process of liquidation.
Deere & Co.....	Nil d	N. F.	N. F.	31	22¾	34	.....	.....	B-2	Baby tractor doing well. Preferred arrears being liquidated.
International Harvester..	Nil	N. F.	N. F.	49	34¼	50	0.60	1.2	B-2	No concrete evidence of betterment for lack of interim reports, but company is known to have done much better this year.

### Machinery & Electrical Equipment

Allis-Chalmers Mfg.....	def	def	0.42	25¼	12	26	.....	.....	B-2	Farm division doing well; also distinct signs of improvement in the heavy electrical equipment and machinery field.
Am. Machine & Fdry....	1.11	0.50	N. F.	24¼	18½	23	0.80	3.5	B-2	Has entered chemical field. Present dividend seems well assured.
Babcock & Wilcox.....	def	N. F.	N. F.	49¾	28	46	0.40	0.9	B-2	Known to be doing better and future is promising.
Bucyrus-Erie.....	def	def	N. F.	8½	4¼	7	.....	.....	B-3	Dividend accumulations on the preferred.
Bullard Co.....	0.40	N. F.	N. F.	17¾	8¼	16	.....	.....	B-2	Recent machine tool business best in years. Dividend prospect later.
Caterpillar Tractor.....	1.94	1.10	1.55	51¼	36½	53	1.00*	1.9	B-1	Has enjoyed great improvement in earning power. Additional extras likely.
Chicago Pneumatic Tool..	Nil	Nil	0.01E	8	4½	9	.....	.....	B-3	Dividend accumulations on the preferred.
Cutler-Hammer.....	0.20	0.32	0.67	25½	16	24	.....	.....	B-2	Business definitely on the uptrend. Dividend prospect later.
Doehler Die Casting.....	1.95	N. F.	1.43	20½	10½	20	.....	.....	B-2	Clearing up preferred accumulations opens way for common disbursements.
Electric Storage Battery..	2.21	N. F.	0.42(1)	49¼	39	45	2.25	5.0	B-2	Strong financially and maintenance of present dividend is further bolstered by improving business.
Ex-Cell-O Aircraft & Tool	0.37	0.53	0.55	9¼	6	10	.....	.....	B-2	More distant outlook promising.
Fairbanks, Morse & Co..	0.28	Nil	N. F.	25½	17	22	.....	.....	B-2	Preferred dividend accumulations to be cleared up before the common can expect anything.
Food Machinery.....	2.29e	N. F.	N. F.	43	20¼	46	1.00	2.2	B-1	Called all outstanding bonds. Candidate for higher rate or extras within near future.
Foster Wheeler.....	def	def	N. F.	17½	9½	15	.....	.....	B-3	Dividend accumulations on the preferred. Is doing better, however.
General Electric.....	0.59	0.28	0.45E	27¾	20½	23	0.60	2.2	B-1	Business much better, but an upward revision in present dividend rate is likely to wait awhile. All "special" stock called.
Ingersoll-Rand.....	2.97	N. F.	N. F.	95	60¼	93	2.00	2.1	B-1	Strong company with bright future prospects.
Mesta Machine.....	1.46	0.71	N. F.	34¾	24½	34	1.50	4.4	B-1	Has been, and still is, remarkably active. Present dividend seems well assured.
National Supply.....	def	Nil	def (1)	19	9	15	.....	.....	B-3	Preferred dividends in arrears.
Niles-Bement-Pond.....	0.14	N. F.	N. F.	23¼	8½	25	.....	.....	B-3	Business better. May pay something later.
Walworth Co.....	def	N. F.	def (1)	3¼	1¼	2	.....	.....	B-4	Reorganization of capitalization under way.
Westinghouse Electric...	Nil	def	0.87(1)	61¼	32½	60	.....	.....	B-1	Coming back fast. A candidate for dividends in the not too distant future.
Worthington Pump & Mach.....	def	def	N. F.	21½	11¼	17	.....	.....	B-3	Dividend arrears on the preferreds.

1—1st quarter. a—Fiscal year to April 30. b—Fiscal year to March 31. c—Three months to June 30. d—Fiscal year to Oct. 31. e—Fiscal year to Sept. 30. E—Estimated. \*—Plus extras.



## Market Indicators

# For Profit

### Processing Taxes

The court decisions holding the Agricultural Adjustment Act and the processing taxes illegal and the injunctions that have been obtained enjoining the Government from collecting such taxes in other cases, is of paramount interest to many industries and consequently to the stockholders that they comprise. Processing taxes collected so far run close to a billion dollars and one cannot take this much money from one section of the public and give it to another without far-reaching effects. Contrarywise, should the taxes be ultimately found unconstitutional by the United States Supreme Court and those that have paid them successfully sue for their recovery, the reverse flood of funds to the packing, tobacco, flour milling and cotton spinning industries also would have far-reaching effects.

The flour millers—General Mills, Pillsbury Flour and others—have not been greatly effected by the processing tax of thirty cents a bushel on wheat. They have merely charged the bakers their usual charge for milling and added the tax. On the other hand, because of the high price of flour, consumption has fallen off and the baking and biscuit companies have been waging a rather unsuccessful fight to maintain volume by cutting prices.

The processing tax on tobacco has cost the big cigarette companies—Liggett & Myers, R. J. Reynolds, American Tobacco and P. Lorillard—a great deal of money. Liggett & Myers alone paid something like seven or eight million dollars in processing taxes last year which it was unable to pass along to the consumer by raising prices. Moreover, in the case of tobacco the processing taxes did what their sponsors hoped they would do—put the price of tobacco out of sight. If they ever recovered this tax from the Government, what a nice windfall it would be to the tobacco companies!

The corn refiners—the two largest

being Corn Products Refining and Penick & Ford—have been hampered in their operations by the five cents a bushel levied on their raw material. This added to already high priced corn has greatly stimulated the importation of competitive materials, to the great disadvantage of the domestic companies and their stockholders.

The meat packing industry has seen the volume of its business fall off 25% or more because of high prices, the processing tax on hogs of \$2.25 a hundred pounds being an important factor in the situation. Swift, Armour, Wilson, Cudahy, while they have made a fair showing since we commenced to emerge from the depression, fundamentally would be in a much better position if only the processing taxes were done away with.

To cotton mills, the processing tax of 4.2 cents a pound on cotton is proving disastrous. The tax is adding more than 30% to the cost of their raw material and the cost is already being kept artificially high by government loans way above the free world price for the product. And the public just won't pay high prices. While completely unorganized, consumer resistance on this point is terrific — and amazingly effective.

\* \* \*

### Cement

Cement imports have risen phenomenally this year. In May, they totalled 85,521 barrels, an increase of 293% over the importations during the corresponding month of last year. For the first five months of this year the increase was 144% over the first five months of 1934. It is mostly Belgian cement, shipped to the eastern seaboard. Imports have been stimulated by the trade agreement between that country and ourselves whereby the duty on cement was cut 25%. The devaluation of the belga also has been an important factor. Yet, despite this

adverse development, domestic cement companies are turning in better reports for the first half of this year than were turned in for the first six months of 1934. International Cement reported for the first half of 1935 earnings of \$455,020 after taxes and charges. This was equivalent to 72 cents per share of common stock and compared with earnings equivalent to 55 cents a share for the first half of 1934. Similarly, Lehigh Portland cement earned \$5.47 a share on its preferred stock for the twelve months to June 30, last, against only 15 cents a share in the previous twelve months. Both Pennsylvania-Dixie Cement and Alpha Portland Cement continue to report losses, albeit on a reduced scale.

So far as the future of the cement industry is concerned, it cannot reasonably expect to attain a measure of true prosperity without greater volume and better prices. With construction distinctly on the upward grade, it may well get the greater volume, but with price cutting already in evidence along the coast, the outlook for prices is not an unclouded one.

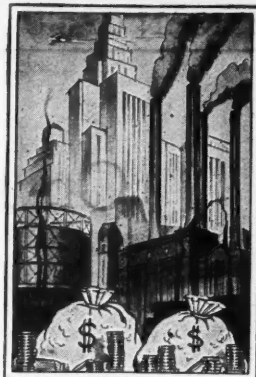
\* \* \*

### Electric Output at Record High

Output of electricity during the week ended July 20 was more than 8½% over a year ago and established a new high record for any summer week in the history of the industry. Indeed, regardless of the season there have been only thirteen weeks with a higher output. It is a sad commentary on the times in which we live that such activity is in no way reflected in the pocket-books of those providing the service. Utility dividends don't reflect it; utility stocks don't reflect it. A large part of the increased revenues are being frittered away in lawyers and accountants fees, in taxes, and in attempts to prevent the heavy hand of government from strangling the industry. As a result, neither the security holders

## The Stockholder

# Dividend and Income



who own the public utility business, nor the consumers who support it are getting any real benefit from a situation that should be extremely satisfactory to everyone.

\* \* \*

### New Alloy

The Allegheny Steel Co. has developed a new alloy, "Fernico." The peculiar property which makes the new alloy so valuable is that it expands and contracts under the influence of temperature changes at exactly the same rate as glass. Production has started already at the rate of 15,000 pounds a month and undoubtedly a substantial part of this production will find its way into the base of the new metal radio tubes. Allegheny Steel, currently paying a regular annual dividend of \$1 a share, is quoted on the New York Stock Exchange around \$27 a share.

\* \* \*

### Building Companies Do Better

The strides made by building activity which has been such a heartening feature of the business picture this year is now having concrete reflection in corporate reports. For the six months to June 30, last, Johns-Manville reported a net profit of \$798,012 after taxes and charges. This was equivalent, after preferred dividends, to 71 cents a share of common stock and compared with only small earnings on the preferred in the corresponding previous six months. In the June quarter, Johns-Manville's sales were more than 20% above those of the second quarter of 1934. Last month Johns-Manville paid a dividend of 25 cents a share on its common stock, the first distribution made to common stockholders since January, 1932.

Also providing concrete evidence of the pick-up that has taken place in construction was the half-yearly report of U. S. Gypsum. This showed a net

profit of \$1,627,477 for the period after depreciation, depletion, taxes and other charges and was equivalent, after preferred dividend requirements, to \$1.14 a share of common stock. In the previous half year the company earned the equivalent of 73 cents a share on its common stock. It will indeed be surprising in the light of the upward trend in residential construction if these two companies do not publish still more satisfactory reports in the future.

\* \* \*

### More Chain Store Taxes

The California chain store tax becomes effective next year. The bill has been signed by the Governor and, unless referendums against the levy change the situation, it is then that chain stores in California will begin paying a license of \$500 a store for all stores above nine in number. This is going to be a great burden to the big chain store companies—in some instances perhaps an insupportable burden. Safeway Stores has more than 1,200 outlets in the state, although A. & P. and Woolworth are well represented, too. Incidentally, Safeway reported for the first six months of the current year net income of \$1,691,463, compared with net income of \$1,781,692 in the corresponding previous period. The more recent earnings were equivalent to \$1.51 a common share after preferred dividend requirements, or only just coverage for regular dividend requirements.

\* \* \*

### Distinguished Addition to the "Big Board"

The Ruberoid Co. is not large; indeed there are only 146,000 shares of the company's stock outstanding which, until now, have spent a quiet trading existence on the New York Curb. What the company lacks in size, however, it more than makes up in the

length of its dividend record. This company, or its predecessors, has paid dividends without an interruption since 1889. Earnings last year were equivalent to \$3.14 a share of common, while for the five months to May 31, this year, the company earned the equivalent of \$1.38 a share of common. That a company catering to building with all its ups and downs—it is a manufacturer of shingles, roofing and insulating materials—should have such a sustained earnings record is remarkable. There is also something remarkable in the fact that the New York Stock Exchange which long has hesitated to list a smaller number of shares than 500,000, lest there be a corner in the stock, should list a company with only 146,000.

\* \* \*

### To Call Preferred

The public has rapidly become accustomed to the redemption of bonds and their replacement at a lower rate of interest—to the great disadvantage of individual investors and to the corresponding advantage of the corporation and its junior security holders. There have not, however, been many preferred stock redemptions as yet, although they may well be on the way. The Loose-Wiles Biscuit Co. has filed a registration statement with S E C with a view to issuing 42,000 shares of 5% preferred stock of \$100 par value. The new stock, which is to be callable at 105, probably will be sold somewhat above par and the proceeds used to redeem the company's outstanding 7% preferred, callable at 120. Holders of the existing preferred are to be given prior opportunity to purchase the new issue. Most of them are likely to accept for lack of other investment opportunity—despite the fact that the exchange will represent a decline of nearly 30% in their incomes. For the first six months of the current year, Loose-Wiles earned the equivalent of \$1.10 a share of common stock.

# On the Upgrade in the Face of Adversity

Closely Knit, Well Managed  
Company with Potentialities

By FRANCIS C. FULLERTON

OUT of all stocks of public utilities, the common shares of American Gas & Electric Co.—a holding company, mind you—are first choice with the investment trusts. Reports of twenty leading investment trusts at the close of last year showed total holdings of 129,000 shares of this stock, more than 75% larger than the combined stake in any other utility. During the first half of this year there has been no lessening of the popularity of American Gas & Electric with investment trusts, judging by such reports as have been issued.

Now it is possible, of course, that twenty investment trusts can be wrong—possible, but highly improbable. In any event, in these days when utility holding companies are pretty generally classed as public enemies by our political reformers, it should be interesting to examine the reasons supporting the widespread esteem in which the common stock of this particular holding company is held.

Those reasons are not hard to find, for American Gas & Electric is a notable example of the manner in which a soundly organized utility holding company can and does function in the interest of both its customers and its security owners. Its capitalization is conservative. Subsidiary operating companies doing 80% of the system's business are physically interconnected. No fees for management are paid within the system. It owns 100% of the common stocks, 38% of the preferred stocks and 30% of the funded debt of the operating companies. From



its investments in the bonds and preferred stocks of its operating subsidiaries it derives more than enough income to cover the parent company's bond interest and preferred dividends.

It has constantly improved the efficiency of its properties, four of its electric plants which produce some 60% of the system's requirements of power being close to the lowest cost steam generating plants in the world. Its accumulated reserve for depreciation increased from \$15,834,000, or 4% of the property investment, in 1929, to \$33,333,000, or 8%, by the close of 1934.

Despite large expenditures of a capital nature—without financing or bank borrowing—its working capital at the close of last year was \$36,000,000, or more than double the 1929 figure. It has paid dividends on its common stock right through the depression, after earning bond interest and preferred dividend requirements by an ample margin.

Finally, it has consistently translated the operating efficiency reflected by the above record into lower rates to consumers. In the period between 1929 and the close of 1934, on top of various reductions made in earlier years, domestic rates were cut 22% and industrial rates 12%. For 1934 its rates averaged 5.70 cents per kilowatt hour for domestic electricity, 1.14 cents for wholesale or industrial power and 1.78 cents for all power sold. The latter figure was approximately 31% below the national average, although part of the difference is accounted for by the

fact that domestic electricity accounts for only 29% of this company's revenues, against an average of 38% for the industry as a whole.

All in all, there would seem to be little or nothing about this holding company with which the most exacting political critic could find fault. It is a far cry between it and that limited number of top-heavy financial pyramids which, unfortunately, have tended to tarnish the whole industry. It has dealt fairly with and served efficiently the interest of all classes of security holders and of the public.

Whatever the outcome of the pending legislation for Federal regulation of utility holding companies—still unsettled between Senate and House conferees as this article is written—American Gas & Electric should be among those least affected. Since sentiment in the House of Representatives has been shown to be overwhelmingly against the automatic death sentence for "unnecessary" utility holding com-

panies and since the division of opinion in the Senate is very close, the chances are that the law which will finally emerge will provide strict regulation.

Under no rational examination, of course, could American Gas & Electric be classed as an "unnecessary" holding company. To a major extent, while crossing many state lines, it serves a homogeneous economic area in Ohio, Indiana, Michigan, Pennsylvania, Kentucky, West Virginia, Virginia and New Jersey. Indeed, operating subsidiaries doing 80% of the system's business are physically connected by high voltage transmission lines. In addition to the interconnected system serving the greater part of these areas, two isolated subsidiary properties serve areas including Wilmington and Atlantic City, Scranton and Wilkes-Barre. With economical interchange of power, the connected system hooks up with other utilities reaching Chicago and industrial territory, aside from its own, in Pennsylvania and Ohio, as well as in the Carolinas.

So far as Federal regulation is concerned, obviously it can not be construed as a bull point on any utility holding company. The best that can be said is that it should bother American Gas & Electric less than most others. For the longer term it will add an inherently incalculable element, for the administration of a law is usually as important as the law and administrators come and go. The average utility investor today has considerable confidence in the S E C and especially in its chairman; but what this body will be several years hence is anybody's guess. Conversely, it is to be doubted that the average utility investor today regards the Federal Power Commission as his friend, but this too may change for better or worse in time.

In short, the political side of the present utility position adds to the speculative risk inherent in any holding company equity, however conservative the obligations ranking prior to that equity.

In the case of American Gas & Electric, those prior obligations are beyond question, conservative. Subsidiaries have \$144,246,000 in funded debt and a total of 488,183 shares of preferred stocks in the hands of the public. The parent company's capitalization consists of \$50,000,000 in 5% debentures, due 2028, 355,623 shares of no par value \$6 preferred stock and 4,482,737 shares of no par value common.

Last year subsidiaries disbursed

\$16,197,000 in bond interest and preferred dividends, but \$5,105,000 of this went to the parent company on its holdings of bonds and preferred stocks of subsidiaries, providing from this source alone more than enough to cover the holding company's own requirements of \$4,697,000 for interest on its debentures and dividends on its preferred stock.

The balance of system earnings available for the common stock amounted to approximately 12% of gross revenues for 1934, against 13% in 1933. This is a relatively low ratio for a utility and implies a considerable degree of leverage for the common shares. Thus, with operating costs and reserve deductions at the 1934 level, it is estimated that a 10% change in gross revenues would mean approximately 70 cents per share on the common.

Actually gross revenues have been relatively steady, as they should be in a well run utility whose rates are limited by public regulation. The peak in gross revenues of recent years was \$68,601,000 in 1930, following which gross fell to a depression low of \$57,011,000 in 1933. It recovered to \$61,577,000 in 1934. Figuring earnings on the basis of 4,482,737 shares of common, to avoid distortion resulting from stock dividends, net was \$3.82 per share in 1930 and \$1.69 per share in 1933, illustrating the leverage factor mentioned above.

That this did not work out in re-

\$1.84 per share of common and taxes amounted to more than \$1.85 per share, the latter a familiar story with all corporations and especially public utilities. Taxes of \$8,629,000 represented an increase of \$1,410,000 over the tax total of 1933 or nearly 20%.

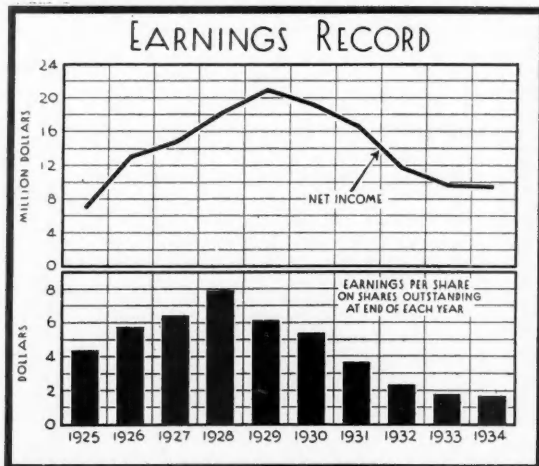
This year both gross and net have shown an upward trend, but with the latter tending to lag because of continued high operating costs and taxes. Monthly sales since January 1 have been running from about 6% to 13% above a year ago. While net for the twelve months ended May 31 was \$1.76 per share of common, against \$1.79 for the corresponding 1933-1934 period, it is probable that, despite higher taxes, net for the first half of this year will better that of the first half of 1934 by a moderate percentage. In short, despite cost handicaps, the gain in gross business appears sufficient to have at last produced a definite, although slow, reversal in net.

It is pertinent to observe that in even the best managed and most soundly capitalized public utility the profits earned are not necessarily proportionate to the physical volume of business handled. On the average this company is selling appreciably more kilowatt hours of electricity this year than it produced and sold in 1929. It need hardly be said that present profits are far from proportionate.

So far as the future can be forecast on a strictly economic basis, divorced from political uncertainties, the outlook for American Gas & Electric is promising. While its present high output of electricity is due importantly to the increased use of household appliances in recent years, notably electric refrigerators, industrial demand—still depressed, though greatly improved from bottom—is relatively more important to this utility than to most, supplying, in fact, about 71% of its revenues. Since it serves many highly industrialized centers in the Middle West, it goes without saying that a normal industrial recovery would quickly carry physical production far above the record high levels being established this

year. That profits in such a recovery would expand proportionately is to be doubted, in the light of rate agitation and a continuing heavy burden of taxation. Nevertheless, net would recover very substantially from present levels, even though the company might have to do 25% more business than in 1929 to approach 1929 profits.

(Please turn to page 418)



verse on the recovery of 1934 gross revenues to \$61,577,000 was due to larger depreciation reserves and to sharply higher taxes, with the result that the 1934 net for the common fell to \$1.66 per share, against \$1.69 on a smaller gross in 1933. This was a new low for the past ten years. Incidentally, deductions for depreciation in 1934 amounted to approximately

# Companies With Earnings at Boom Levels

Selected by THE MAGAZINE OF WALL STREET STAFF

Reports for the six months just ended are encouraging. Recovery in earning power continues despite handicaps. In fact a few companies are so favorably situated that their earnings are at a prosperity level. The following feature briefly analyzes a group of six such companies which in our opinion should maintain or extend the improvement they have shown.

## Chrysler Corp.

In the automobile industry the position occupied by Chrysler Corp. is a living refutation of those who believed that there was no room for a low-priced car in the face of Ford and Chevrolet competition. Yet, Chrysler's Plymouth has carved out a reputation for itself so that, according to new passenger car registrations for the first five months of this year, it is accounting for nearly 15% of all the cars sold in the country.

Nor is it only to Plymouth that Chrysler must give credit for earnings which are currently believed to be the

Earnings Per Share		Div.	Recent Quotation
1934	1935		
\$2.19	\$4.31	\$1.00 plus	\$55

best in the company's history. Dodge passenger car sales have been running about double those of last year, while Dodge trucks are more than holding their own, taking almost 12% of the total truck business available.

Chrysler Corp. reported earnings equivalent to \$4.31 a share of common stock for the first six months of 1935. Profits equivalent to \$2.12 a share were reported for the first quarter. The \$4.31 a share shown for the six months, makes a fine comparison with the \$1.88 a share reported for the first half of 1934 and means that the June quarter this year had been the best from a profits standpoint in the company's history.

In view of Chrysler's large earning power, stockholders may be slightly disappointed at a seeming lack of liber-

ality in the payment of dividends. A regular dividend of \$1 a share annually is paid, while at the end of last June an extra of 25 cents was distributed and another of the same amount has just been declared. Even so, payment total only a small proportion of current earnings. On the other hand, it will be remembered that Chrysler has just paid off its entire funded debt, the \$30,000,000 in Dodge Bros. debenture 6s. To do this it borrowed from the banks \$25,000,000 which was to be paid off serially over the next five years. Already, \$5,000,000 has been paid back ahead of maturity. It is because the company wishes to pay off the remaining bank loans without inconvenience or impairment of working capital that more is not being paid stockholders. Even so, of course, additional small extras are likely to be distributed from time to time.

Although strong financially and with the sole capital liability (aside from the bank loans which have been mentioned) being \$31,728,940 in common stock of \$5 par value, Chrysler at \$55 a share appeals more to the long-term holder who can ignore smallness of return, than to the investor trying to strike a true balance between risk and yield.

## American Chiclé Co.

Few indeed are the companies that can boast such a record as the American Chiclé Co. The depression caused the merest hesitation in the upward trend of profits. Net income of \$1,795,000 in 1928 rose to \$2,108,000 in 1929 and then made a small additional gain for 1930. A little ground was lost in the years following, but net in-

come of \$2,006,000 for 1934 was again close to the best that the company had ever reported. Compared with the interim reports of 1935, however, that of 1934 and even those of the boom years must stand back and take second place.

For the six months to June 30, 1935, American Chiclé reported net income, after all charges and taxes, of \$1,312,-

Earnings Per Share		Div.	Recent Quotation
1934	1st Half 1935		
\$4.51	\$2.95	\$3.00 plus	\$92

739. This was equivalent to \$2.95 a share on the outstanding common stock and compares with earnings equivalent to \$2.18 a share reported for the first six months of 1934. Thus, the \$3 regular annual dividend is being covered with ample margin to spare and, while the company has already paid extras amounting to \$1 a share so far this year, stockholders reasonably can expect further generous treatment. The stock of American Chiclé currently sells around \$92 a share so that, taking into consideration the extras already paid, the return is about what must be considered satisfactory in this time of extremely easy money rates.

The American Chiclé Co. is a manufacturer of chewing gum and allied products. These include Chiclets, Adams chewing gum, Dentyne gum and Sen-Sen breathlets, all of which are extensively advertised. Manufacturing operations are concentrated in Long Island City, N. Y., although wholly-owned subsidiaries operate in Mexico and in Canada. The principal raw

material is chicle, obtained from Mexico, Guatemala and British Honduras, and substantial supplies are always kept on hand.

Financially, American Chicle leaves nothing to be desired. At the end of last year, current assets totalled \$4,989,000, of which more than \$3,000,000 was in the form of cash or marketable securities. As of the same date, current liabilities amounted to less than \$600,000. Such a position becomes even more impressive when it is realized that the sole capital liability is the common stock—445,000 shares of no-par value, carried on the books at \$4,450,000.

The outlook for the company hinges on the question as to whether any further increase in costs can be offset by increased volume of sales. While it is possible from this point that profits show less impressive acceleration, nevertheless with reviving business and purchasing power there would seem to be no reason why American Chicle should not continue to do well.

## Monsanto Chemical Co.

Uninterrupted progress throughout the whole period of the depression is something which can be said of exceedingly few companies. Among them is the Monsanto Chemical Co. which chose to stage the greatest expansion

Earnings Per Share		Div.	Recent Quotation
1934	1935		
\$3.03	\$1.90	\$1	\$75

program of its history just when every one else was pulling in their horns. Commencing the period with the greater part of its business in the stable fine and medicinal chemical field, Monsanto is a rapidly growing factor in industrial chemicals. In addition to which it is interested in a large and growing list of what might be termed "chemical specialties." In this classification we would include synthetic flavors, various chemicals entering into lacquers, and various compounds derived from a petroleum base—a field of chemistry which is comparatively new.

Moreover, it speaks well of the manner in which the expansion was carried out that stockholders suffered in no way from the necessity of "co-ordinating" new divisions. Usually when a company is growing fast a year or two has to elapse before the new divisions can be brought to their fullest efficiency and frequently during the period per share

earnings fail to advance. In the case of the Monsanto Chemical Co., however, per share earnings registered no such customary recession. Adjusted to the 100% stock dividend that was paid early in 1934, Monsanto reported \$1.97, \$1.36, \$1.50, \$1.19, \$2.57 and \$3.03 for the years 1929, 1930, 1931, 1932, 1933 and 1934 respectively. For the first half of this year, the company earned the equivalent of \$1.90 a share on each of the 974,133 shares of common stock outstanding.

The number of shares outstanding was increased recently, for in May, Monsanto, having previously held control, merged with the Swann Corp., an electric-chemical producer of phosphoric acid and derivatives. The common is outranked in the capital structure by \$913,000 in 10-year notes and by \$2,643,600 in the preferred stock of the British subsidiary.

At the present time, stockholders of Monsanto Chemical are receiving a regular annual dividend of \$1 a share. This is little enough for a stock selling above \$75 a share. Moreover, while moderate extras from time to time are more likely than not, there is nothing in the prospect to lead a stockholder to the conclusion that greatly increased dividends are a reasonable near-term expectation. This is because of Monsanto's continuing expansion. In the last annual report it was stated that the company faced the largest construction program of its history, more than \$4,000,000 having been budgeted for "replacements, extensions to plant required by increased demand, plant for new products, and auxiliary facilities." Nevertheless, there is much that is attractive in the stock of Monsanto Chemical as a long-term holding; it is a dynamically growing company in a dynamically growing industry.

## Libbey-Owens-Ford Glass Co.

Reporting for the first half of 1935, the Libbey-Owens-Ford Glass Co. showed a net profit of \$4,284,316, after depreciation and taxes. This was equivalent to \$1.69 a share on each of the 2,535,098 shares of no-par common stock outstanding and compared with 99 cents a share reported for the first half of 1934. The greater part of the credit for the excellent gain made by L-O-F must be attributed to the great manufacturing activity in the automobile industry and consequently the enlarged demand for safety glass. There have, however, been substantial gains in residential construction and this, too, has helped the company.

Libbey-Owens-Ford is one of the largest producers of flat glass in the country. Plants are located at Charleston, W. Va.; Shreveport, La.; Toledo and Rossford, Ohio; and Ottawa, Ill. Additional property in this country includes leases (held jointly with the Owens-Illinois Glass Co.) on more than 130,000 acres of natural gas land

Earnings	Per Share	Div.	Recent Quotation
1934	1935		
\$1.24	\$1.69	\$1.20	\$35

in West Virginia and Kentucky, which provides fuel for the adjacent plants of both companies. Foreign interests are substantial, dividends received from these sources in 1934 amounting to more than \$110,000. They include stock holdings in Belgian, German and Japanese glass companies.

In 1931 Libbey-Owens-Ford obtained a seven-year General Motors contract for practically all the big automobile company's safety glass requirements. It has been supplying, moreover, a great deal of safety glass to the Ford Motor Co. It seems, however, that Ford is going to make about half his own glass and, while he will not be in operation for some months yet, this is a development that can hardly have other than some adverse effect upon Libbey-Owens-Ford's business, although the blow will not, of course, be a vital one.

Moreover, an acceleration of the upturn so clearly visible in building will result in a demand for glass more than offsetting any loss of Ford business. At the same time, there are longer term possibilities in specialty products such as the Thermopane, a sealed double pane designed for use with air-conditioning, and the new, tempered glass which may be bent remarkably and then, even if it does break, crumbles into grains like sugar.

Financially, Libbey-Owens-Ford leaves little to be desired. At the end of last year current assets totalled \$11,691,000, of which \$5,853,000 was in the form of cash or marketable securities, while current liabilities amounted to only \$1,691,000. There is outstanding neither funded debt nor preferred stock, the entire ownership of the business resting with the holders of the 2,549,864 no-par shares of common stock. This is currently selling around \$35 a share and is on a regular dividend basis of \$1.20 annually. The company's earnings being what they are, and fortified by a strong cash position, it would seem that the stock were a candidate for a higher regular rate, or

at least a substantial extra before the end of the year.

## Continental Can Co., Inc.

Continental Can's earnings last year were the highest in the company's history and present earnings are running but slightly below that record. For 1934 the company reported net income of \$10,707,122, after depreciation, depletion, provision for doubtful accounts,

Earnings Per Share		Div.	Recent Quotation
1934	Year to June 30, 1935		
\$4.02	\$3.93	\$2.40	\$91

taxes, and after setting up a special reserve of \$500,000 for a possible decline in inventory prices. This was equivalent to \$4.02 on each of the 2,665,191 shares of common stock outstanding. For the twelve months to June 30, 1935, earnings equivalent to \$3.93 a common share were reported.

The company stated that "Profits in 1934 were substantially increased through the consumption of raw materials purchased at favorable prices in 1933 in quantities in excess of normal forward purchases." In this case, and considering part of last year's profits in the nature of a non-recurring item, it may well be that true earning power this year is running even higher than last, despite the slight decrease according to the published figures. Such a conclusion is partly confirmed by the known activity in tin plate manufacturing and the evidence visible to any one that a constantly increasing number of things are being packed in tin cans.

Continental Can is the second largest manufacturer of cans in the country. While the greater part of the output is still packers cans used to pack fruits and vegetables, the general line used to pack coffee, tea, tobacco, motor oil, and a host of other things, is steadily growing in importance. In the United States, Continental Can has more than three dozen plants located in almost as many cities. It operates a tin plate mill, a corrugated box factory and several plants for can making and closing machinery. The closing machinery is leased to customers on contracts running a considerable period.

The most recent development of importance, so far as the potential market is concerned, is the packing of beer in cans. Such a form of container has many advantages. There is a great saving in shipping costs; a given quan-

tity occupies less space; and there is no bothering with returns. It was feared, however, that the public would not accept beer in such a container. Fortunately, anxiety on this score seems to have been groundless. The Kreuger brewery, experimenting with American Can containers, found that they were given a good reception and output is to be greatly expanded. It is understood that Continental Can is to market two kinds of tin beer containers—one similar to the conventional packers can and the other to come to a point and be capped like an ordinary beer bottle. Production in quantity will be achieved in a month or two.

The capitalization of Continental Can consists solely of the common stock; there is neither preferred stock nor funded debt—ignoring a purchase money mortgage of less than \$7,000 in a balance sheet that reveals total resources of nearly \$90,000,000. Financially the company is strong.

The common stock of Continental Can is currently quoted around \$91 a share and the yield afforded on the basis of the regular annual dividend of \$2.40 is therefore less than 3%. A substantial premium, over and above what would be normal statistical valuation, however, is justified in this case. The company has done well, is doing well and, with the outlook for a large canning crop this year and with the evidence of the strides being made in general line cans, Continental Can is a company likely to continue doing well.

## United Carbon Co.

For the United Carbon Co. last year was even better than the previous peak established in 1929, while the first quarter of this year eclipsed any previous quarter in the company's history. In 1934, net profit after depreciation, depletion, taxes and other charges

Earnings Per Share		Div.	Recent Quotation
1934	1st Half 1935		
\$3.55	\$2.25E	\$2.40	\$56

E—Estimated.

amounted to \$1,452,939 which was equivalent, after deducting preferred dividends up to the time of the stock's retirement, to \$3.55 a share of common stock. For the first quarter of this year the company earned the equivalent of \$1.21 a share of common stock and it is estimated that operations in the second quarter will bring the half year's earnings to \$2.25 a share.

The United Carbon Co. is one of the most important, if not the most important, producer of carbon black in the country. This is a remarkable substance which obtains its valuable properties from its fineness of division. So small are these particles that they can be seen with no ordinary microscope. It is this fineness of division that gives carbon black its great tinctorial power and thus it is extensively employed in printing inks, paints and lacquers. It is, however, not here that the greatest quantity of carbon black is used, but in automobile tires. When mixed with rubber, its fineness of division acts as a binder and adds greatly to the tire's life.

In addition, carbon black has other extensive uses. It is an ingredient of various black shoe and other polishes. It finds its way into drawing inks, carbon arcs and carbon brushes, into battery cases and drawing inks. Indeed, the list of uses is almost endless and the manufacturers of carbon black are busily engaged in extending them. United Carbon does a great deal of pure research on the subject and maintains for the purpose laboratories at Charleston, West Virginia, where a trained staff endeavor to discover new and improved uses for their company's product.

Carbon black is manufactured by a gas flame impinging on a metal surface and, because of the great quantities of gas required, it is logical that operations should be carried out close to natural gas fields. United Carbon's plants are located at various points in Louisiana, Texas, Oklahoma, Utah and Montana. It has its own natural gas plants and lines and owns or leases many thousands of acres of gas lands. While carbon black is the principal source of revenue, the sale of natural gas as such is also an extremely important item in the earnings statement.

The capitalization of United Carbon consists of 394,327 shares of common stock of no-par value. The preferred stock was called last year, the company borrowing part of the money from the banks. At the end of last March, notes payable stood at \$800,000. As of the same date, current assets amounted to \$2,441,900, of which \$674,666 was in the form of cash, while current liabilities totalled \$758,208. Currently, the common stock of United Carbon can be bought for about \$56 a share, the regular annual dividend of \$2.40 a share affording a return of slightly less than 4½%. With every prospect of a further increase in general industrial activity, to say nothing of the possibilities in the expanded use of carbon black, United Carbon is an interesting issue at the present time.

# Taking the Pulse of Business

- *Steel Activity Rises*
- *Copper Market Firmer*
- *Tin Stocks Lower*
- *Gasoline Consumption Up*
- *Electric Output Higher*

**R**ECOVERY in our Business Activity index since the rather extensive curtailment in plant operations over the Fourth of July has been so widespread and of such gratifying proportions as to support a belief that the summer reaction in business may be over and that the next few months may witness an extraordinarily sharp improvement in the volume of production and trade. Obviously this is the outlook which our Common Stock Index has been discounting in its leisurely advance since the middle of March, entirely ignoring the irregular seasonal recession in business which was taking place in the meantime.

The recovery wave which appears to have set in since our last issue will be the fourth in a series of bulges since March of 1933; but seems to be of much sounder character in that it starts from a higher base than any of the preceding three and is not prompted by a desire to stock goods in anticipation of materially higher prices. The most encouraging aspect of the present upturn is the exceptionally sharp expansion in steel operations since the holiday. Steel, which supplies raw material to nearly all of the capital goods industries, has led every genuine recovery from depressions of the past. It is especially noteworthy that the present expansion in steel operations comes without material aid from the automobile industry, which is still withholding orders in hopes of forcing lower prices as well as from uncertainties as to what the new fall models will require.

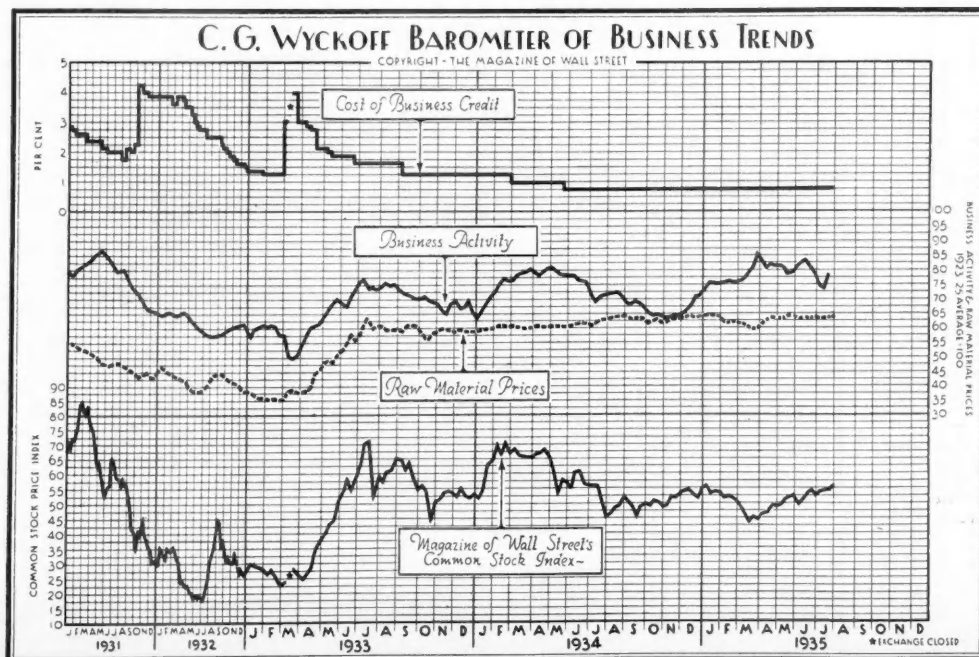
The fact is that a very definite revival in demand for

capital goods is emerging all along the line. This is amply attested by various reports for June which disclose an increase over the previous June of 60% in the amount of new corporate capital raised by flotation of securi-

ties, a gain of 140% in refunding operations, a rise of 160% in machine tool orders, and an expansion of 229% in the estimated value of new residences for which permits were granted during that month. Residential contracts actually awarded were nearly double the value for June, 1934. This is the very best of leadership, and is all the more encouraging on account of the huge backlog of obsolescence that must be made up and a complete absence of overstocking of steel products. The situation embodies possibilities of a strong buying movement.

The expansion in demand for consumers' goods, while not so spectacular, has progressed with only minor interruptions since the initial spurt during the closing half of 1933, and of recent months has developed unusual vitality in agricultural areas. This is evidenced by the recently released report on rural sales, which show an increase over last year of 38% for June as compared with a cumulative gain of 22.5% for the half year. That automobiles and the investment markets of recent months have been competing for the public's dollars may be gathered from the news that life insurance sales in June fell 8.5% below a year ago, though the first six months showed a cumulative gain of 0.5%.

Retail sales picked up considerably last month; but merchants and jobbers have recently reduced their purchases



from manufacturers under the belief that court decisions against processing taxes and the Bankhead Act may not only curtail farm purchasing power, but also make it possible to benefit from the removal of processing taxes by holding out for lower prices. Meanwhile retail prices of dry goods and housefurnishings continue to sag slowly and now average about 3% lower than a year ago. Wholesale meat sales are 25% ahead of last year in dollar totals; but tonnage sales are off 25%.

#### The Trend of Major Industries

**STEEL**—An unusually sharp rebound in steel operations since the Fourth of July has brought the operating rate up to beyond 43%, the highest since April. According to a recent compilation by the American Iron and Steel Institute, small companies with investments of under \$10,000,000 earned a fairly satisfactory return on their capital even in the poor years, 1933 and 1934; but it is generally known that larger plants, which rely upon orders for heavy shapes must operate above 40% of capacity to cover fixed charges. The industry is still maintaining wages, hours of work and principles of fair competition of the old steel code. The question of granting secret discounts for quantity, however, will probably come up for decision this month. Meanwhile automobile makers are holding back orders, a circumstance which makes the present expansion in operations peculiarly cheering. The fact is that stocks of finished steel in the hands of miscellaneous consumers have run dangerously low, with an especially urgent demand coming from the canning and farm implement industries.

**METALS**—Senator Pittman has refused to join the Congressional silver bloc in urging a more aggressive policy on the Treasury, having expressed himself as well satisfied with the present rate of purchases which are averaging about 50,000 ounces monthly. During the past few weeks, the Treasury has followed the policy of checking foreign short sales by taking all silver offered below 67 $\frac{3}{4}$  cents. Stabilizing copper at the lower level of 8 cents has created a more healthy market, and sales last month were about double the quantity allocated under the old code quota. Foreign buyers are at present showing little interest in the metal at prices ranging from 7.35 cents to 7.92 cents, c. i. f. European base ports. Expanding demand for tin, conspiring with rigid control of production, has reduced visible stocks to a low level and caused considerable stiffening in price.

**PETROLEUM**—Thus far a rapid increase in production since voidance of the N. R. A. has been taken care of by an unprecedented rise in consumption of gasoline, and this has prevented demoralization of the price structure; but the real test will come after demand passes its seasonal peak a few weeks hence. Realiz-

ing this danger, officials in three states—Texas, Oklahoma and Kansas—have agreed upon sharp reductions in crude output for the month of August. It remains to be seen if these orders can be enforced.

**POWER AND LIGHT**—It is estimated that a 6% increase in sales of electricity during the first six months of the present year was translated into an aggregate gain for the industry as a whole of around 4% over the corresponding period last year in both gross income and net earnings after charges. This would be the best showing for any first half-year since 1931.

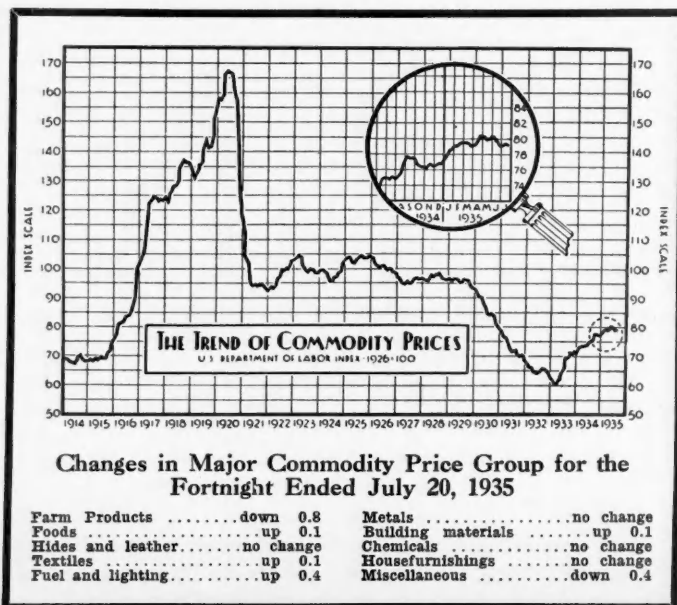
**RAILROADS**—Judging from an analysis of short term results, the Burlington reports that per-mile costs of operating the Zephyr are less than half the expense of operating a steam train of like passenger capacity. Should freight earnings pick up as anticipated, from heavier movement of crops this autumn and as a result of expansion in the capital goods industries, it seems quite likely that the carriers will make an effective bid to recapture lost passenger traffic by rather widespread installation of stream-lined trains, which would make it possible to reduce fares.

**TIRES**—A nation-wide move is under way to end the tire war and restore prices to normal. It remains to be seen, however, if competitive price cutting can be effectively abolished and if the proposed scale of higher prices will suffice to offset rising costs of crude rubber and place the industry on a profitable basis.

**LIQUOR**—If Congress adopts proposals to legalize bulk sale of liquors, wholesale liquor dealers and the cooperage industry will be helped. The bottle makers, on the other hand, would take a trimming. The distillers also would be hurt, for bulk sales would greatly ease the bootleggers' selling job.

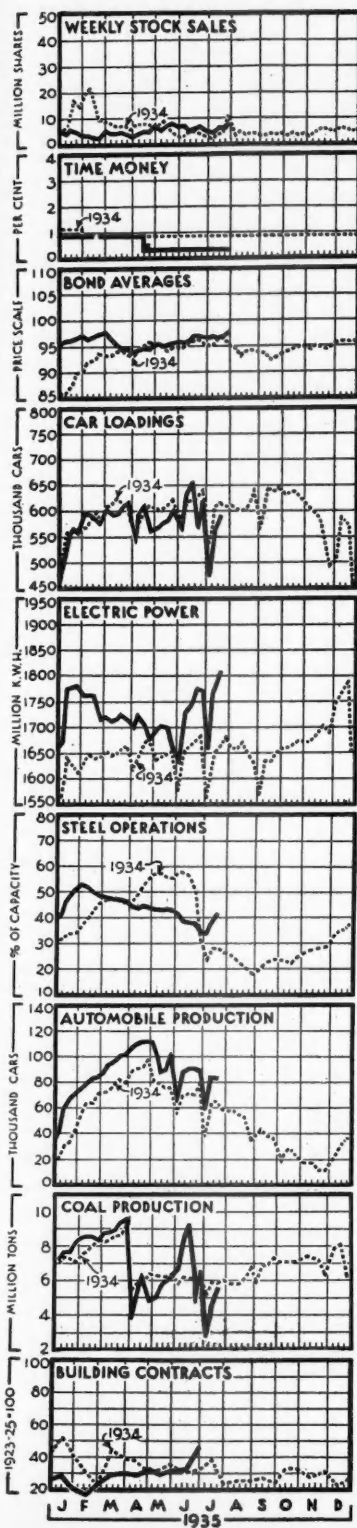
#### Conclusion

An unusually brisk recovery in Business Activity has been led by the steel industry upon resumption of operations after the Fourth of July. With stocks of finished products at a low level and unmistakable evidence of spontaneous revival in demand for capital goods, there are sound grounds for expecting a sharp expansion in the general volume of production and trade during the next few months. In spite of threatened pressure by the inflationist bloc in Congress, our index of Raw Material Prices offers little evidence of any nearby rise in the general price level; so that such business recovery as is now under way can scarcely be attributed to expectations of materially higher prices. This conclusion is supported by recent firmness in quotations for high grade bonds.



# The Magazine of Wall Street's Indicators

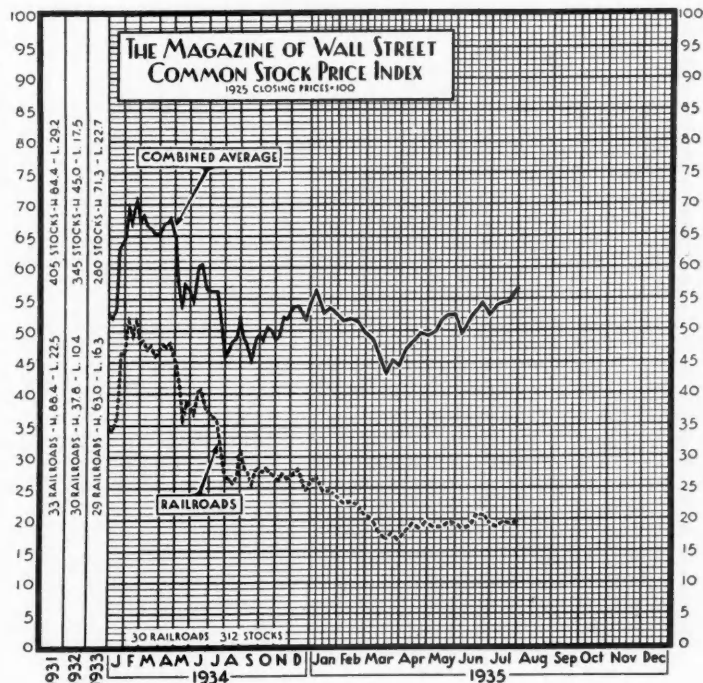
## Business Indexes



## Common Stock Prices Index

1934 Indexes				1935 Indexes				
High	Low	Close	Number of Issues	(1925 Close=100)	High	Low	July 13	July 20
71.2	45.0	54.6	289	COMBINED AVERAGE	56.6	43.0	54.1	54.6
105.7	44.2	87.0	5	Agricultural Implements	88.1	64.1	74.0	75.3
42.3	20.2	27.1	6	Amusements	27.4	17.8	26.3	25.7
58.9	35.2	55.5	13	Automobile Accessories	69.7	44.6	64.7	68.5
24.9	11.8	14.2	13	Automobiles	16.8	8.8	10.0	10.6
92.5	43.6	60.1	5	Aviation (1927 Cl.—100)	60.1	41.3	53.5	52.9
17.4	8.7	9.2	3	Baking (1926 Cl.—100)	11.3	7.9	10.1	11.3h
240.9	153.6	191.8	2	Bottles & Cks. (1932—100)	243.2	184.8	243.2H	241.3
136.0	100.0	131.6	4	Business Machines	140.4	113.7	137.1	140.4H
229.5	178.9	237.5	2	Cans	301.2	236.1	291.2	301.2H
210.5	134.3	167.2	8	Chemicals	179.4	144.6	178.6	179.4H
37.2	23.1	28.8	16	Construction	31.4	22.6	29.5	30.3
70.1	40.1	43.8	5	Copper	66.0	35.7	50.9	52.9
37.0	25.7	32.0	2	Dairy Products	33.4	27.5	33.2	33.0
26.8	16.4	21.2	8	Department Stores	22.7	16.0	19.3	19.6
84.2	56.0	73.1	7	Drugs & Toilet Articles	73.1	56.1	56.1x	59.6
91.3	59.1	78.7	3	Electric Apparatus	130.1	70.1	110.7	114.3
211.2	103.8	211.2	2	Finance Companies	250.5	211.2	250.5H	250.5
64.0	51.1	58.3	7	Food Brands	59.4	51.8	57.8	57.4
71.1	55.1	55.7	4	Food Stores	56.4	46.5	53.5	56.1
58.8	36.2	45.4	3	Furniture & Floor Coverings	49.3	32.1	43.9	48.3
1372.0	1106.0	1164.9	3	Gold Mining	1209.7	1062.4	1102.0	1071.7
35.6	25.1	35.6	5	Household Equipment	41.0	35.3	38.8	38.7
31.8	19.3	30.8	4	Investment Trusts	26.1	17.0	24.0	24.5
295.5	164.0	247.0	3	Liquor (1932 Cl.—100)	273.9	223.6	230.7	230.0
53.4	34.2	44.2	2	Mail Order	53.1	36.0	48.1	49.5
88.6	51.9	62.0	3	Meat Packing	62.2	34.5	38.5	40.8
160.1	117.4	137.8	11	Metal Mining & Smelting	148.0	109.4	138.8	137.8
86.8	52.0	58.2	23	Petroleum	70.3	51.3	65.7	61.5
25.0	15.2	21.0	3	Phonos. & Radio (1927-100)	21.0	15.9	18.5	18.8
72.8	32.1	34.8	16	Public Utilities	45.1	23.0	40.5	39.8
66.2	34.9	43.9	8	Railroad Equipment	43.9	29.3	41.5	41.6
52.0	24.5	35.8	25	Railroads	26.7	17.5	19.5	19.1
15.9	6.0	8.8	3	Realty	8.9	5.2	6.3	5.7
50.2	28.9	41.6	3	Shipbuilding	43.4	28.5	41.4	43.4
77.0	42.0	54.4	10	Steel & Iron	64.1	37.6	51.2	56.6
31.3	20.4	22.2	5	Sugar	30.4	21.1	27.0	25.1
214.0	131.5	143.2	2	Sulphur	150.3	122.5	144.9	142.7
70.3	40.2	45.2	3	Telephone & Telegraph	53.2	34.2	50.4	51.2
65.8	37.5	47.8	8	Textiles	50.4	34.7	43.6	46.1
14.6	7.6	9.0	5	Tires & Rubber	9.3	6.0	7.1	7.0
85.6	48.8	84.7	4	Tobacco	98.1	77.2	91.4	93.9
73.8	43.8	65.0	3	Traction	66.8	51.0	62.8	61.7
275.5	43.6	258.2	3	Variety Stores	271.7	219.7	266.3	271.2

H—New HIGH record since 1931. h—New HIGH this year. x—New LOW this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, splits, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.)

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
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## AMERICAN CAN CO.

*It seems to me that American Can's early prospects must be fully reflected in current prices, and further advances must come from increasing pressure of low-money rates. In this circumstance would you counsel further retention of its stock bought at 96?—E. P. W., New York, N. Y.*

Long the leading manufacturer of "packer's" and "general line" cans, the American Can Co. has recently become prominent in the development of paper milk containers and beer cans. In this connection, the company recently obtained a contract from H. B. Hood & Sons, one of the largest milk dealers in New England, to supply paper milk containers for its requirements. American Can had previously been meeting the requirements of a large New Jersey dairy which amounted to roughly 25,000 paper containers daily. The advantages of containers of this type are obvious, since they eliminate the need for deposits in the case of delicatessen and grocery store sales and, in addition, are lighter and easier to handle than the customary glass bottle. In addition to the excellent possibilities of sizable profits from its milk container division, American Can has also developed a can to replace the bottles now used for the retail distribution of beer. The company is already understood to have received a contract from a leading Middle West brewery and the entire brewing industry is said to be interested in this development. These new items, together with those which have

already proven their worth, notably cans for the distribution of lubricating oils, attest to the managerial efficiency for which the concern has long been noted and are an indication that new earnings records are probable during coming years. On this basis alone, the company's common stock will doubtless continue to command the attention of far-sighted investors, while the prevailing low money rates to which you refer also are a factor which contributes to demand for income producing stocks of this type. If you are willing to disregard possible temporary corrective movements from time to time, therefore, further retention of your stock would seem to be fully warranted.

## INTERNATIONAL BUSINESS MACHINE CORP.

*I would like to know if you consider International Business Machine a speculative investment at current levels and yield. Do you look for anything more in the way of stock dividends or increases? Also, what do you think of its course from here?—A. C. J., Jacksonville, Fla.*

Few are the companies which can boast of an earnings record comparable with that of International Business Machine Corp. Even in the usually disastrous year 1932, the company reported earnings of better than \$9 a share, although its stock did sell down in sympathy with the general list to approximately six times earnings for that year. Quite obviously, such an

appraisal of a company which has shown almost uninterrupted growth since its formation in 1911 was due to the panic conditions which existed at that time. The activities of the company are well diversified not only as to types of products manufactured, but also geographically. Factories are maintained in practically every leading country, while almost every major industry, including railroads, insurance companies, governmental units, chain stores, public utilities, etc., employ the electric recording and tabulating machines manufactured. For the most part, the company's income is derived from leasing of these machines, although it also produces and sells numerous other items, such as scales, slicing machines, coffee grinders, time recorders, electric typewriters, etc. An active research department is maintained which is constantly developing new machines and perfecting those now in use. Capitalization is most conservative, there being no bonds, preferred stock or bank loans preceding the 703,345 shares of common stock outstanding at the last year-end. Financial condition is also adequate in consideration of the simple capitalization and stable earnings afforded by rental income. At the close of last year, current assets of \$5,928,857, including cash of \$1,988,750, compared with current indebtedness of \$2,958,096. The \$6 annual dividend rate established on the stock in 1930 has been continued uninterrupted. (Please turn to page 415)

**When Quick Service Is Required Send Us Prepaid a Telegram and Instruct Us to Reply Collect**

# Selecting New Market Leaders Offering Large Near-term Profits

**O**UR market analysts are now selecting those stocks which should be among the new leaders of the advance. Recent profitable situations uncovered include such issues as Columbia Pictures, Distillers Seagrams, General Railway Signal, International Cement and Mesta Machine.

## Balance of 1935 Holds Tremendous Profit Possibilities

Over the coming months our analyses indicate the greatest improvement in business of the past five years. With this background, selected securities are certain to move considerably higher.

The present market phase provides an excellent opportunity to readjust your holdings and concentrate in the issues chosen by our market and security specialists. It may be a "last chance" to make commitments in new leaders at attractive levels. The major features of the legisla-

### 108½ Points Profit To Date This Year

Our record this year—our closed and open position—shows 108½ points profit. We are confident of securing much greater profits for our clients over the balance of the year. In fact, with the market having definitely gone into new high ground since 1931, we look for a sustained period of increasing activity and interest during which frequent and exceptional profit opportunities will develop.

Several securities offering quick and substantial profits have been selected. To participate in them and our new recommendations, we suggest that you mail the coupon below with your check and telegraph us "Remittance and subscription in mail. Wire advices."

lation to be enacted at this session of Congress are now known and have been largely discounted. As soon as Congress adjourns, definitely removing legislative uncertainty, the major up-trend of the market should get fully under way.

### A Service Tested By Long Experience

For over sixteen years the FORECAST has been guiding investors and traders

through all types of markets with an outstanding record of profit. Its subscribers are located not only in the United States but in Canada, Mexico, South America and Europe. These investors must have market advisory counsel that is up-to-the-minute and that will permit them to operate profitably despite the handicap of distance from the financial centers. That they find the service of THE INVESTMENT AND BUSINESS FORECAST satisfactory is a tribute to its accurate prediction of market trends and its careful selection of desirable securities.

## *The* INVESTMENT and BUSINESS FORECAST OF *The* MAGAZINE of WALL STREET

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Include a Complete List of Your Present Holdings for Our Analyses and Recommendations







## Answers to Inquiries

(Continued from page 410)

rupted since that time and has been supplemented by frequent stock dividends, the last payment of this type being 2% on January 10, last. While the present return on the stock is not large, potentialities in the company's line of endeavor are such as to justify the belief that the stock will continue a favorite among "blue chips". With further stock dividends and possibly higher cash distributions probable later on, the shares should be retained in your portfolio.

### AMERADA CORP.

*In view of my profit in 50 shares of Amerada Corp. bought last year at 49, do you think I am justified in holding for further appreciation when I am speculatively rather than income-minded? Do you think its prospects are such as to warrant an additional investment on this basis?*  
—M. J. B., Kansas City, Mo.

We regard Amerada Corp. as a strong oil company which has steadfastly remained exclusively a producer of crude oil and casinghead gasoline. In this respect this company differs from the majority of the other leading companies in the oil industry which, during the past ten years, have increased their activities to take in every phase of the industry from production to the operation of service stations. On the other hand, Amerada's policy has proved to be sound and advantageous, inasmuch as the company has paid its stockholders regular dividends at the rate of \$2 annually without interruption since 1926. Last year, in spite of higher operating costs, because of codes, the company reported a net income of \$1,736,420, equal to \$2.20 a share on the capital stock, against \$380,443 or 50 cents a share on the capital stock in 1933. At the year-end of total current assets of \$5,544,732 over \$3,500,000 was in cash and current liabilities were only \$448,059. This condition, in our opinion, amply reflects the conservative and sound policies of the management. For the first three months of 1935 earnings amounted to 51 cents a share on the capital stock, against 68 cents for the first quarter of 1934, and currently, of course, the company is in its best earnings season of the year. The company has no bank loans or funded debt and these features, in conjunction with Amerada's excellent record and indicated potentialities, in our opinion, warrant favorable consideration. Therefore, we feel that you are justified in holding your

AUGUST 3, 1935

## Notice of Redemption

To the Holders of

### ARMOUR AND COMPANY OF DELAWARE

First Mortgage Twenty-Year 5½% Guaranteed Gold Bonds, Series A, Dated January 1, 1923 and Due January 1, 1943:

NOTICE IS HEREBY GIVEN pursuant to the provisions of Article IV of the First Mortgage and Deed of Trust dated January 1, 1923 from Armour and Company of Delaware to Continental and Commercial Trust and Savings Bank, The Chase National Bank of the City of New York and William P. Kopf, Trustees, that Armour and Company of Delaware has elected to redeem and pay, on September 7, 1935 all of the outstanding First Mortgage Twenty-Year 5½% Guaranteed Gold Bonds, Series A, issued under and secured by the said First Mortgage and Deed of Trust. The holders of said Series A bonds of Armour and Company of Delaware so called for redemption are hereby notified that there will become and be due and payable on September 7, 1935 upon each of the bonds so to be redeemed, at the office of Continental Illinois National Bank and Trust Company of Chicago (successor to Continental and Commercial Trust and Savings Bank), 231 South La Salle Street, Chicago, Illinois, or, at the option

of the holder of any such bond, at the principal office of The Chase National Bank of the City of New York, Corporate Trust Department, 11 Broad Street, in the Borough of Manhattan, City and State of New York, the principal amount thereof together with a premium of 5% of such principal amount and the interest accrued on such principal amount to September 7, 1935.

Coupon bonds should be accompanied with coupons maturing after July 1, 1935, and registered bonds should be accompanied by duly executed assignments or transfer powers.

Interest on said Series A bonds will cease to accrue from and after September 7, 1935.

ARMOUR AND COMPANY OF DELAWARE

By  
PHILIP L. REED, Treasurer.

Dated at Chicago, Illinois,  
July 9, 1935.

The above mentioned bonds will be accepted and paid upon presentation and surrender thereof at the places of payment specified above at any time prior to September 7, 1935, at 105% of the principal amount thereof, with interest upon such principal amount accrued to the date upon which the bonds are received for such payment.



The public utility system of

### Standard Gas and Electric Company

serves 1,659 cities and towns of twenty states . . . combined population 6,000,000...total customers 1,644,345...installed generating capacity 1,582,479 kilowatts...properties operate under the direction of Byllesby Engineering and Management Corporation, the Company's wholly-owned subsidiary.



shares for further appreciation and, at the same time, providing your position is not over-balanced insofar as oils are concerned, that further purchases at favorable market opportunities are warranted.

### LOOSE-WILES BISCUIT CO

*In 1933 Loose-Wiles earned \$2.74 on its common stock, \$2.07 in 1934, and for the first quarter this year 58 cents as against 67 cents in 1934. Would you care to comment on the future earnings outlook, especially in relation to the investment status of the stock?*—L. C. M., Spokane, Wash.

While what you say concerning earnings of Loose-Wiles over the past year and one-half is true, nevertheless there are many strong features to be considered in connection with this company—features which in our opinion

do give an investment status to its stock. For the most part, the 350 varieties of crackers and fancy biscuits sold by this company are put up in packages and are manufactured in a chain of factories strategically situated from coast to coast. The acquisition of the company's plants has increased not only their facilities but trade areas as well during the past five or six years. And it is worthy of comment in our opinion that this expansion was very largely financed out of earnings, with the exception of two companies which were taken over by means of an exchange of stock. The company has no bank loans and no funded debt. Its capitalization consists solely of 35,419 shares of \$7 preferred stock and 522,600 shares of common stock. Incidentally the company called a special meeting of stockholders recently to authorize a change in the capitalization from \$29,-

080,300 represented by shares of preferred and common stocks to \$33,000,000 to be represented by 100,000 shares of preferred of \$100 par and 920,000 shares of common of \$25 par. It is the intention of the board to call for redemption on October 1 all of the 7% preferred at \$120 per share and to issue for the refunding \$4,200,000 new 5% preferred. The company is strongly entrenched and as of the year-end, current assets, including over \$2,000,000 in cash, were \$8,263,981 whereas current liabilities were \$1,185,774. This compares with current assets of \$7,703,140 and current liabilities of \$1,144,309 the year before. In summing up it is well to bear in mind the fact that if you look at the results of other food companies generally, especially baking companies, it will be found that about half of them made less money last year than the year before; the food industry as a whole having shown but 3.5% improvement. We feel that an able management has guided this company successfully through very trying years and gradually as customers of retail stores forget price and begin to demand quality instead of quantity, earnings of this company should improve. Consequently we see no need for hasty liquidation of shares now held.

### MOTOR WHEEL CORP.

*As the automobile industry approaches its seasonal peak, do you believe Motor Wheel will hold up? Can I continue to hold its stock as a good moderate speculation?—O. D. C., Detroit, Mich.*

Manufacturing a diversified line of automobile wheels, operations of Motor Wheel Corp. have recently improved in line with increased production schedules of the motor car manufacturers. In the initial quarter net income, equal to 30 cents a share on the capital stock was somewhat below the 32 cents a share shown for the like interval of the preceding year, but subsequent operations indicate that earnings for the full year will substantially exceed those of last year, when the equivalent of 48 cents a share was shown. Under the circumstances, the recently resumed dividend of 50 cents annually would seem secure, while some increase in this rate at a later date is by no means improbable. In addition to the company's wheel division, a number of other products such as oil burners, heating appliances, steel and wood barrels, "centrifuse" brake drums, etc., are also manufactured and these lines, for the most part, lessen the company's dependence upon the automobile industry. However, the principal source of revenues is still the sale of automobile wheels and other parts to automobile manu-

facturers. While it is true that seasonal influences are not currently favorable to companies in this field, the fact that operations are holding up better than was previously expected by many observers, attests to the soundness of the current recovery and is an indication of the tremendous pent-up demand which only awaits restored purchasing power and renewed confidence for its release. Financially Motor Wheel Corp. is in good shape and its capitalization is the simplest, being comprised entirely of common stock which is outstanding in the amount of 850,000 shares. On the basis that the general industrial trend is upward and that the subject company will participate further in this recovery, we believe you will do well to retain your holdings of the stock.

### BOHN ALUMINUM & BRASS CORP.

*Would you advise holding or selling Bohn Aluminum bought at 45 3/4 in face of its sharp reaction? Is there any truth in the report the company is losing its piston business, or do you attribute the present action solely to poor profits for the first six months?—I. H. P., Madison, Wis.*

Despite the pronounced reaction suffered by Bohn Aluminum shares, we do not suggest liquidation of your position in them at this time. It is true that the company has lost some of its piston business and, undoubtedly, this factor, together with the earnings decline for the first 6 months of the current year accounted for the action of the stock marketwise. First half year earnings were reported to be \$2.70 a share, against \$3.23 for the like period of last year and March of this year was reported to be the largest the company has enjoyed for some years. In 1933, earnings of this company were equivalent to \$4.24 a share on the capital stock and last year the net income improved further to over \$1,518,387, equal to \$4.31 a share. However, this by no means was entirely attributable to better conditions in the automobile industry. Among its customers the company also lists manufacturers of vacuum cleaners, radios, airplanes, refrigerators, washing machines and a wide variety of other products, requiring light weight, yet durable parts. As a matter of fact, the company also has a manufacturing unit producing brass, bronze and aluminum products used for architectural purposes by the building industry, and the company is in a very good position to profit materially from any building boom. As of December 31, 1934, its strong financial position was revealed by current assets of \$5,582,119, including cash of \$117,135, and current liabilities of only \$798,025. Rather recently a statement

was made that the company probably would call for payment within the next few months, its only funded indebtedness consisting of \$499,000 principal amount of 6% convertible debentures due July, 1938. All factors considered, we feel that the outlook for these shares is favorable over the long pull.

### CANADIAN INDUSTRIAL ALCOHOL CO.

*I have 150 shares of Canadian Industrial Alcohol "A" averaging 12 3/4%. My broker does not look too favorably on my prospects, yet I would not want to jump into something else haphazardly and will, therefore, appreciate your advice.—B. S. N., Chicago, Ill.*

Although no earnings report has been released by Canadian Industrial Alcohol Co., Ltd., since that for the year ended September 30, 1934, when a net loss of \$558,529 was shown, indications are that the report for the current fiscal year will show marked improvement. The loss last year, despite the record earnings being reported by most companies in this field, was attributable principally to the reluctance of potential customers in the United States to stock up in the face of the possibility that the tariff on liquor might be lowered. Diminishing supplies of aged whiskies held in the United States, however, and the growing demand for these whiskies for blending purposes, has recently enabled the company to liquidate a sizable portion of its inventory. The consummation of negotiations was announced in May of this year for the purchase of some 3,000,000 gallons of aged American type whiskey from the company by a subsidiary of Schenley Distillers Corp. More recently, a subsidiary of Oldetyme Distillers Corp. purchased 100,000 cases of seven-year-old bonded whiskey from the company's subsidiary, Corby Consolidated Distillers, Inc. Since the company had on hand approximately 7,200,000 imperial gallons at the close of the year, it is still in a position to take full advantage of the anticipated further expansion in demand for aged whiskey in the United States which is bound to prevail until time has permitted accumulation of stocks by the domestic distillers. Thus, the company should be able to pay off its important liabilities which consisted of \$1,200,000 bank loans and \$4,000,000 McNish debentures, guaranteed by the company, at the date of the latest balance sheet. All in all, the stock must be regarded as a speculative medium, but where the risks are recognized, maintenance of one's position in the issue should ultimately prove profitable, judging from the present outlook.

## ARMOUR & CO.

*It is my understanding that the earnings of Armour & Co. have shown considerable improvement, yet this is not reflected in any advance of the common stock. Do you think this will come?—T. M., Houston, Tex.*

After having sustained a deficit on a consolidated basis of \$8,046,146 for the fiscal year ending October 29, 1932 (before profit on bond redemption), earnings of Armour & Co. (Illinois) recovered sharply during the two succeeding fiscal years. Increased volume sales, higher meat prices, and the consequent improved inventory position of the company accounted for the earnings gains. Thus far this year, however, the company, in common with its competitors, has been confronted with consumer resistance to rising meat prices and has found it difficult, if not impossible, to pass on the processing tax to the consumer. Furthermore, whereas in the 1932-33 fiscal years the company was selling at advancing prices an inventory acquired for the most part, at extremely low levels, the advance in the value of inventories this year has been less pronounced in relation to cost. On the other hand, the company has effected sizable savings through debt refunding, while its capital readjustment plan last year was a step in the right direction from the common stockholders' standpoint, albeit accumulations on the old 7% preferred still outstanding must be cleared before distributions to common stockholders are possible. As for consumer strikes against higher meat prices, these are said to be less threatening than earlier in the year and will doubtless entirely disappear as purchasing power advances further. Probably the brightest spot on the horizon for the meat packers is the possibility that the recent decision of the United States Circuit Court relative to the AAA and its accompanying processing taxes will be upheld by the Supreme Court; the tax on pork products has been particularly detrimental to the packers. While present low quotations and the stock's market action would indicate that little in the way of dividends can be expected by stockholders of Armour common for some time to come, we feel that your holdings should be left undisturbed on a price basis.

## GENERAL FOODS CORP.

*I note that General Foods has been going ahead marketwise although its first-quarter earnings did not come up to last year. Do you foresee further appreciation? Would the company benefit through the ending of processing taxes?—D. F. V., Baltimore, Md.*

Over the long pull we do see further marketwise appreciation for General

## DIVIDEND NOTICE PACIFIC LIGHTING CORPORATION

Common Stock Quarterly Dividend No. 104 of 60 cents per share, payable August 15, 1935, to stockholders of record July 20, 1935.

\$6.00 Preferred Stock Quarterly Dividend No. 112 of \$1.50 per share, payable July 15, 1935, to stockholders of record June 29, 1935.

Dividends on the foregoing issues, as well as on all the outstanding Preferred issues of the subsidiary companies (whose common stocks are owned by Pacific Lighting Corporation) have been paid without interruption since the initial dividend.

## PACIFIC LIGHTING CORPORATION AND SUBSIDIARY COMPANIES (PRELIMINARY BEFORE FINAL AUDIT)

### Statement of Consolidated Revenues, Expenses and Dividends for the Twelve Months Ended June 30, 1935

GROSS OPERATING REVENUE	\$47,317,101.42
DEDUCT:	
Operating Expenses	\$20,021,085.91
Taxes	6,483,095.95
Depreciation	6,698,415.00
Total	33,202,596.86
NET OPERATING REVENUE	\$14,114,504.56
OTHER INCOME (Net)	299,192.14
Total	\$14,413,696.70
DEDUCT:	
Bond Interest	\$4,929,669.39
Other Interest	24,565.09
Amortization of Bond Discount and Expense	276,744.13
Total	\$5,230,978.61
Less Interest Charged to Construction	21,624.95
NET INCOME BEFORE DIVIDENDS	\$ 9,204,343.04
DIVIDENDS OF SUBSIDIARIES:	
Preferred Stock	\$1,515,893.30
Common Stock—Minority Interest	165.00
Total	1,516,058.30
REMAINDER—APPLICABLE TO PACIFIC LIGHTING CORPORATION	\$ 7,688,284.74
DIVIDENDS ON PREFERRED STOCK	1,179,990.00
REMAINDER—APPLICABLE TO COMMON STOCK	\$ 6,508,294.74
DIVIDENDS ON COMMON STOCK	4,343,303.70
REMAINDER TO SURPLUS	\$ 2,164,991.04
Amount Per Share Applicable to Common Stock	\$4.05

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AUGUST 3, 1935

# New York Curb Exchange

## ACTIVE ISSUES

### Quotations as of Recent Date

Name and Dividend	1935 Price Range		Recent Price	Name and Dividend	1935 Price Range		Recent Price
	High	Low			High	Low	
Alum. Co. of Amer.	64½	32	62½	General Tire	71½	38	42
Amer. Cyanamid B (.40)	22½	15	21	Glen Alden Coal (*1)	24	13½	18
Amer. Gas & Elec. (1.40)	30¾	16½	29½	Great A. & P. Tea N.-V. (*6)	139	121	133
Amer. Lt. & Tr. (1.20)	12½	7½	11	Gulf Oil of Pa.	74¾	50¾	61
Amer. Superpower	1½	¾	1½	Hudson Bay M. & S. (†.50)	16¼	11½	15½
Assoc. Gas Elec. "A"	13/16	¾	¾	Humble Oil (1)	64	44	57½
Atlas Corp.	11¾	7¾	10½	Imperial Oil (*50)	22½	15½	19¾
Cities Service	2¼	¾	1½	Lake Shore Mines (*4)	58	48	50½
Cities Service Pfd.	24½	6½	16½	Mead-Johnson & Co. (*4)	69	55	69
Cleveland Elec. Illum. (2)	40	23½	38	National Sugar Ref. (2)	35	25¾	30½
Colum. G. & E. cv. Pfd. (5)	73	32	61¼	Niagara Hudson Pwr.	7½	2½	6½
Commonwealth Edison (4)	84½	47½	81	Novadel-Agenc (2)	22¾	18¾	21½
Consol. Gas Balt. (3.60)	85¼	53½	83	Pan-Amer. Airways (1)	44¾	36	39
Cord Corp.	4¾	2½	3	Pepperell Mfg. (6)	89½	52¾	75½
Crane Co.	16	7	15½	Pitts. Pl. Glass (*2)	77¾	46¾	77
Creole Petroleum	18¾	10	16½	Sherwin-Williams (3)	106½	84	105
Distillers Cp. Seag.	22½	13½	21	South Penn Oil (1)	28¾	21½	23½
Elec. Bond & Share	10½	3½	8½	Swift Int'l (2)	36¾	31	32¾
Elec. Bond & Share Pfd. (6)	67	37½	63½	United Founders	1½	¾	7/16
Fisk Rubber	11¼	5½	6½	United Lt. & Pwr. A	1½	¾	1¼
Elec. Pr. Assoc.	4¼	2¼	3¼	United Shoe Mach. (5)	85	70	82½
Ford Mot. of Can. "A" (1¼)	32½	23½	27½	Walker Hiram H. W.	32½	23½	25½
Ford Motor, Ltd. (10)	9¼	7½	8¾				

\* Includes extras. † Paid this year.

Foods shares and we do believe the company will benefit through the ending of the processing taxes. As a matter of fact, only recently several subsidiaries of this company received temporary orders restraining the collection of AAA processing taxes. Last year General Foods net income amounted to \$11,143,876, equal to \$2.12 a share on the capital stock, compared with \$11,032,948 or \$2.10 a share for 1933. In the second quarter of this year, however, earnings per share amounted to 47 cents as against earnings of 42 cents for the similar period of last year. The company's strong financial position was indicated at the year end by current assets of \$38,590,614, of which over \$9,000,000 was in cash, whereas current liabilities were only \$5,681,374. This company, as you know, is an outgrowth of the old Postum Co. and during the last 40 years of its existence has grown into one of the largest food manufacturing and distributing organizations in the country. At the present time the business has been built up to include over 80 branded food specialties and many of these are currently advertised and distributed abroad. Even though last year the company sold the largest physical volume of food products in its history, the previous record year having been 1929, General Foods reported only a slight earnings improvement as has already been shown. This was due almost entirely to the increased costs of operation under the

N.R.A. Of course, another factor which cut into income was the fact that taxes amounted to more than one-third of net earnings. The company's management has maintained its trade position in spite of keen competition and its liquid finances are in excellent state. Operating economies have been effected and the management has constantly reached out through, for example, its Bird's Eye frosted food division to increase its income, and over the longer pull the possibilities for this branch of the business indicate a very important source of profits. Earnings of this company should appreciate as consumer purchasing power increases and, consequently, we still maintain a constructive attitude toward the stock.

## American Gas & Electric

(Continued from page 403)

It should be added that the name American Gas & Electric could scarcely be more misleading, since 98% of its business is electricity, gas properties having been disposed of long ago. Next year will round out thirty years of life for this enterprise, during which period the communities served have increased from twenty to 1,200, with a population of 3,000,000 in 30,000 square miles.

For years American Gas & Electric paid a cash dividend of \$1 a year and capitalized excess earnings, re-invested in the property, with a distribution of 4% a year in stock, paid semi-annually. This financial policy, under which physical properties were expanded to a major extent out of earnings rather than by resort to financing, contributed largely to putting the enterprise in its present almost impregnable financial position.

Apparently the end of the stock dividend policy has been reached at least for the present, as seems proper with the system's physical capacity around 25% in excess of present peak load. Last January a 20-cent cash extra was paid in lieu of the regular stock dividend and in April the common was put on a regular cash basis of \$1.40 a year, well within present earnings.

Selling around 30, or nearly double the year's low, the common yields a return of 4.66%. This can hardly be considered a generous return for such an equity, even under present money market conditions, but reasonable allowance can be made for future potentialities. It should be worthy of semi-speculative consideration in periods of market reaction.

## Recovery Fostered on Business Principles

(Continued from page 392)

positors. Among the other notable beneficiaries of R.F.C.'s helping and rescue work are 73 railway companies, 1,221 building and loan associations, 204 insurance companies, 606 mortgage companies, 951 business firms and 1,498 regional agricultural and livestock credit corporations.

Styled and organized as a corporation, the R.F.C. has transacted government business on thoroughly conventional business lines. It has been a rigid lender, making allowance for the fact that its work was one of public service rather than profit. There have been no scandals, and very few mistakes of a serious nature. It may not make a profit, in the remote end, as its prototype the War Finance Corporation did in the 1920-21 crisis, but it will undoubtedly come close to a cash accounting for all of its lent funds. And as for its mandatory donations to relief, and its allocations of relief-and-recovery funds, they are on the conscience of the Congress and the President. Both as lender and as donor the R.F.C. has seen its duty and done it,—using good judgment in the first capacity and loyally obeying orders in the latter.

## Gauging Security Values

(Continued from page 387)

characterized chiefly by stability represent, for the most part, those which deal principally in consumers' goods—commodities and services for which there is relatively small variation in demand during good times and bad. The common stocks of such companies as food processors, cigarette manufacturers, drug manufacturers, shoe manufacturers, meat packers and motion picture producers, are appraised on a basis which denotes the absence of unusual possibilities for growth, but which at the same time recognizes the merit of sustained earnings. Earnings for this group may be capitalized on the average of from 6 to 8 per cent. Occasionally special circumstances may favor a company whose earnings are normally non-spectacular, resulting in substantial enhancement in the value of its common stock. But the representative issues in this group, however, commend themselves to the investor seeking income and only moderate price appreciation.

Those stocks which the market capitalizes at anything from twenty times earnings upward are those of the leading companies identified with industries having dynamic possibilities for producing substantial earning power over the next several years. Paradoxically, most of the industries comprising this group are those which were hardest hit by the depression and have to date shown but a bare minimum of recovery—manufacturers of electrical equipment, railway equipment, farm machinery, industrial machinery and steel. Of this latter group, it may be said that almost without exception current quotations are based upon future expectations. Certainly there is nothing in the late earnings of such companies as Westinghouse Electric, U. S. Steel and International Harvester which would warrant the prevailing price levels for their shares. Of the industrial prestige of these companies, however, there can be no doubt and in a period of sustained recovery they are virtually certain to prosper.

Further the investor would do well to observe the financial position of these companies as disclosed by the accompanying table. Working capital equal to \$47.81 a share for International Harvester, and current assets equal to 10 times current liabilities, weigh heavily in the current market appraisal of the company's shares. The same holds true of Westinghouse, U. S. Steel and others.

The chemical stocks are the most

favoured group today, both for investment and speculation, for it is generally conceded that the future possibilities for the chemical industry are virtually unlimited. Millions of dollars annually are spent by the industry for research and the development of new processes and products. Naturally, new markets and new sources of income are being continually created. Chemical products are consumed by practically every industry and leading chemical companies had an excellent depression record. Further the chemical industry is free from labor difficulties and inventory problems. These outstanding considerations count heavily in the market appraisal of the shares of the representative companies and if the current market indicates an average ratio of from 25 to 30 times last year's earnings for this group, these same ratios may seem quite conservative in relation to the potential earnings of these companies, several years hence.

In attempting to arrive at a basis for appraising railroad and public utility stocks, the factor of earnings, for the present at least, is overshadowed by other factors. Not only have the utilities been the subject of severe political attacks, both national and local, but they have been compelled to accept rate reductions at a time when mounting costs are not being fully offset by increased consumption. One-fourth of the railroad mileage in the United States is in receivership and all but a handful of the carriers are hard pressed to meet fixed charges. Costs and maintenance charges are mounting, while traffic continues to lag. Under the circumstances, only the exceptionally favored utility and rail shares can be given anything better than a speculative appraisal of their potential earnings and until the situation in both groups is more clarified there is no basis for disputing the logic of this condition. A ratio of from 10 to 12 times earnings would seem to be the maximum appraisal of these groups for investment purposes.

Price appreciation is the primary objective of common stock speculation, while increased dividends constitute the secondary result of improved earnings. Over a period of time, however, there is a distinct relationship between market prices and dividends. This may become more important with the passage of time, for there has been an increasing tendency for companies to deal more liberally with their stockholders, as opposed to the former policy of re-investing a large portion of earnings in plant and equipment. It will be noted on the accompanying chart that in the early years of the century, dividend-paying common stocks sold to yield only a little better than 4 per cent—or at 25 times their dividends. Even in 1929 stocks were not much higher on this yield basis than they were in 1902. Further it will be noted that at the end of the first quarter of this year on a yield basis stocks were nearly 1 per cent higher than at the end of the first quarter of 1934. Since the latter period, however, there have been a large number of dividend increases which have not been followed by a corresponding increase in the market prices of the stocks.

In the accompanying table of representative stocks, it will be noted that the majority of them are selling considerably higher than 25 times dividends. In practically every instance, however, there is a distinct possibility of an increase in the present rate or the payment of a generous extra. Thus it may be generally concluded that a high price ratio to dividends, when supported by a reasonable ratio to earnings and adequate working capital, on a per-share basis, is a pretty reliable indicator of favorable dividend prospects.

Observing the substantial ratio of current assets to current liabilities, further emphasized by reducing working capital to a per-share basis in the tabulated stocks, not only is one impressed with this indisputable evidence of financial strength, but these ratios give added

## MARKET STATISTICS

	N. Y. Times			N. Y. Times		
	—Dow, Jones			50 Stocks		Sales
	40 Bonds	30 Indus.	20 Rails	High	Low	
Monday, July 15	81.94	121.72	33.63	99.08	97.97	949,230
Tuesday, July 16	81.98	122.34	33.59	98.80	97.53	900,850
Wednesday, July 17	82.13	122.91	33.81	99.51	98.29	1,357,840
Thursday, July 18	82.11	123.41	33.64	100.24	98.88	1,495,650
Friday, July 19	82.11	122.33	33.35	99.74	98.48	1,149,220
Saturday, July 20	82.07	122.69	33.41	99.14	98.58	429,500
Monday, July 22	81.99	124.10	34.09	100.35	98.97	1,369,090
Tuesday, July 23	82.08	124.14	34.43	100.94	99.65	1,734,340
Wednesday, July 24	82.22	124.60	34.31	100.37	99.58	1,305,690
Thursday, July 25	82.08	123.80	33.77	100.50	99.02	1,334,270
Friday, July 26	82.14	124.02	34.01	100.15	99.38	986,380
Saturday, July 27	82.20	125.27	34.32	100.64	99.76	734,240

# Over-the-Counter

## ACTIVE ISSUES

### Quotations as of Recent Date

INDUSTRIAL					
	Bid	Asked		Bid	Asked
American Book Co. (4)	67	70½	Dayton Power & Light Pfd. (6)	109¾	111¾
Babcock & Wilcox (40)	45	46½	Jersey Central Pwr. & Lt. Pfd. (7)	78	80
Bon Ami, B (*2)	42	45½	Kansas Gas & Electric Pfd. (7)	105	106
Canadian Celanese	22	25	Metropolitan Edison Pfd. (6)	96	98
Colt Fire Arms (*1¼)	33	34	Nebraska Power Pfd. (7)	110¾	112
Crowell Publishing Co. (*1¼)	29¾	30¾	New Jersey Pwr. & Lt. Pfd. (6)	88	90
Dictaphone Corp. (76)	28½	30	Ohio Public Service Pfd. (7)	92	94
National Casket (3)	53	56	Pacific Gas & Elec. Pfd. (1.50)	27	28½
Northwestern Yeast (8)	100	102	Pacific Power & Light Pfd. (7)	63	65
Scovill Mfg. (1)	21½	22½	Puget Sound Pwr. & Lt. Pfd.	30	33
Singer Mfg. Co. (*11)	295	300	Tennessee Elec. Power Pfd. (6)	60	62
Wilcox & Gibbs (1)	20	23	Texas Power & Light Pfd. (7)	93	95
			Utilities Pwr. & Lgt. Pfd.	9	10½
PUBLIC UTILITIES			TELEPHONE & TELEGRAPH		
Alabama Power Pfd. (7)	70½	72½	American Dist. Tel., N. J. (4)	85	88
Carolina Power & Light Pfd. (7)	81	83	Mountain States Tel. & Tel. (8)	121	123½
Central Maine Power Pfd. (7)	87½	90	Northwestern Bell Pfd. (6½)	114¾	116½
Columbus Rwy. Pwr. & Lt. Pfd. (6)	98½	100½	Peninsular Telephone	11	12½
Consumers Power Pfd. (6)	104½	105½	Southern New England Tel. (6)	121½	123¾

\* Includes extras.

support to common stock values as they are currently appraised in the market. Further it should be borne in mind that today many corporations are in a stronger working capital position than they were in 1929, and during the past several years particularly not only has there been a marked increase in the shareholder's equity through the reduction of bank loans and funded debt but potential earning power has been materially enhanced by the substantial saving effected by refunding operations at a low coupon rate.

## Business Prospects and Earnings Reports Dominate the Near Term Trend

(Continued from page 380)

to 19 points under the best levels of either 1933 or 1934—a market record which certainly can not be held to suggest any as yet dynamic change for the better in the general rail picture.

Public utilities, after a fortnight of moderate but persistent recession, now show a modest upturn, reflecting three faint cheers for the recent insistence of House conferees on the utility bill that a couple of determined Administration lobbyists for the automatic death sentence for unnecessary holding companies remove themselves from the conference room. Whatever the outcome of this still unsettled issue, it is to be noted that for more than a month utility common shares have shown no ability to better the mark reached in the third week of June, a fact which would appear to suggest that an average March-June recovery of some 38

per cent in this group just about represents all the milk in the speculative coconut for the present, though the merits of many senior obligations are quite another matter.

As for the general business outlook, the important features are rising steel operations, moderate improvement in residential construction, gradual recuperation in demand for equipment, machinery and other capital goods; sustained automobile demand—and relatively stable prices. Neither in the volume of business nor the prices at which it is conducted, and neither in the aggregate of employment nor the weekly remuneration paid for it, are there any evidences of that disaster that was to follow the termination of the N R A more than two months ago, according to the gloomy forebodings of our political high priests.

Perhaps this proof of the pudding is one reason why—along with the reminder that the Supreme Court is still in business—the stock market now takes Washington's alarms and excursions less seriously. Some way or other,

the beating of the political war drums sounds much less disconcerting than it did a few months ago.

## Happening in Washington

(Continued from page 385)

"facilitating personnel" quota over to the particularly related Congressmen, leaving all the picking to them.

*An edifying spectacle* is afforded by the mixture of intellectuals and facilitating personnel in the same groups. Side by side will be found professors who are as lacking in political guile as a new-born babe and "facilitating personnel" who look upon all life as a succession of wily plotting and pulling.

*While this Administration* has been strong on facilitating personnel and has deluged all the emergency agencies with superfluous employees, the regular departments and executive agencies under the classified civil service regulations have been starved in respect to material and personnel. In some units men and women have to work endless overtime, while in the emergency groups you can see men and women bored to death with inactivity.

*At the same time the regular units have been perturbed for two years by the constant prospecting of Hurja, Farley's Man Friday, for flaws in the civil service which here and there might admit a "deserving Democrat."*

*The wonder is* that administration, regular or emergency, as really good, as governmental administration generally goes. One explanation is that while many a bonehead gets into the temporary setups with ease he also gets out with even more ease. Hire and fire works as ruthlessly in some of these agencies as in the most brutal private business. Pulls get you hired but bulls keep you from staying hired.

## In the Next Issue

### What the Investor Can Learn from Recent Changes in Investment Trust Portfolios

### Opportunities in Preferred Stocks With Back Dividends and Recovering Earnings

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